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ABSTRACT

This teacher-oriented learning module for secondary level consumer education teachers, the first in a series of three, was developed to provide information on life insurance and ideas for conveying this content to students. The module begins with a definition and general goals of consumer economics, an overview, a pre-test, a performance objective regarding insurance from the Michigan Guidelines in Consumer Economics, and performance objectives and key ideas relative to each of the nine objectives. The next portion of the module covers the nine performance objectives and for each one (varying from three to fifteen pages in length) includes some or all of the following: key idea and student learning activities correlated with information summaries, tables, and worksheets. The nine content areas covered are as follow: the insurance concept, managing risk, what life insurance is, who needs life insurance, amount of life insurance needed, types of life insurance, choosing the type of policy, shopping for life insurance, and policy options and provisions. A posttest and a list of sources for additional information conclude this module. The appendix contains the pre- and posttest answer key, and congressional testimony on the Consumer Insurance Information and Fairness Act. (EM)

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LIFE INSURANCE FOR CONSUMERS: A TEACHER'S GUIDE

BY: JUDITH THELEN

APRIL, 1978

A TEACHER INSERVICE MODULE FOR SECONDARY LEVEL CONSUMER EDUCATION UNITS IN HOME ECONOMICS, BUSINESS EDUCATION, SOCIAL STUDIES AND RELATED AREAS.

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THE CENTER

The Michigan Consumer Education Center provides professional development and continuing education services to educators through courses, workshops, inservice programs, conferences and publications. The Center maintains a loan library of teaching-learning resources available for preview and evaluation.

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U.S. DEPARTMENT OF HEALTH, EDUCATION & WELFARE
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DEFINITION

Consumer economics education is the preparation of individuals in the skills, concepts and understandings required for everyday living so they are equipped to make decisions resulting in efficient use of and satisfaction from their economic resources.

-- Michigan Guidelines in Consumer Economics, 1978

GENERAL GOALS OF CONSUMER ECONOMICS

CONSUMER BEHAVIOR

The student will analyze the factors affecting consumer behavior.

Values	Decision Making	Basic Skills
Lifestyles	Advertising	Special Needs
	Career Choice	

FINANCIAL MANAGEMENT

The student will apply basic principles of sound financial management.

Budgeting	Tax Forms	Financial Institutions
Credit	Estate Planning	Savings and Investments
Record Keeping	Earnings	Income Use
Insurance	Payroll Deductions	Checking Accounts

GOODS AND SERVICES

The student will demonstrate knowledge and skills in buying and using goods and services.

Food	Transportation	Professional Services
Clothing	Education	Metrics
Housing	Recreation	Buying Practices
	Health	

RIGHTS AND RESPONSIBILITIES

The student will analyze the interrelated rights and responsibilities of consumers, business and government.

Consumer Laws	Complaint Methods	Current Issues
Energy	Environment	Fraud and Deceptive Practices
Health	Product Safety	
	Contracts	Warranties

ECONOMICS

The student will relate economic principles to the functions of the marketplace.

U. S. Economic System	Profits and Price
World Economic Systems	Economic Problems
Government Role in Economy	Taxation

INFORMATION AND ASSISTANCE

The student will evaluate sources of consumer information and assistance.

Agencies	Information Sources
Services	Information Evaluation

The objectives of this module relate to one or more of the general goals of consumer economics.

OVERVIEW

A great deal of confusion surrounds the subject of life insurance. Consumers do not know whether they need insurance. If they do, they are unsure or unrealistic about how much they need. If they do know how much they need, they may feel that they cannot afford it, or that it is a waste of money. Even worse, some do not wish to think about it because it smacks of death. They are unsure about which type of policy best suits their needs, and they are uncertain about accepting the saleman's advice. Determining whether whole life insurance is a good or appropriate investment is baffling, almost as mystifying as trying to determine the true cost of a whole life insurance policy. A 1973 survey by the industry's American Council of Life Insurance (then the Institute of Life Insurance) revealed that:

> "Only three out of 10 people who buy life insurance think they know what they are doing (four out of 10 feel uneasy because they are not sure they are getting the right kind of policy).
>
> "Only one out of 10 people think that life insurance agents are responsive to individual buying needs."

In 1974:

> "Only three out of 10 people think that the life insurance companies have been doing a good job of educating the public about life insurance (three out of 10 think not, and four out of 10 have no strong opinion)."

As a result of consumer confusion, some people are overinsured, but a great many more are underinsured, much to the dismay of a deceased person's family. Others may be adequately insured, but spend much more than is necessary for that insurance. In introducing a bill on "truth in life insurance"

the late Senator Philip Hart reported that "four-fifths of individually sold life insurance is being done by 98 percent of relatively high cost companies" (July 8, 1975 Congressional Record, S11977).

The need for improved education about life insurance is evident.

The primary goal of this module is to make teachers more comfortable and sure of themselves on this complicated subject, and to provide them with ideas on how to effectively convey life insurance concepts to their students. More specifically, after study of this module, teachers should be better able to:

-- help students determine who needs life insurance

-- help students determine how much life insurance is appropriate in a given situation

-- help students identify the distinguishing characteristics of different types of life insurance policies

-- help students choose an appropriate policy for a given situation

-- provide students some guidance on how to shop for life insurance

-- help students sort out policy options and provisions which may make policies more or less valuable.

Admittedly, much of the information presented here will be too complicated for a great number of classrooms. The idea has been to provide the teacher with enough information to feel knowledgeable about the topic. The teacher, however, will have to selective about which concepts to present to a particular class -- a teacher might have several classes with varying levels of skill. Some classes could handle the most complicated concepts while others would have trouble with the simple ones.

This module is teacher-oriented. A student-oriented programmed learning package is the Unigraph Life Insurance Learning Activity Package. In this writer's opinion, the Unigraph LAP is a rather simple and clear explanation

of life insurance concepts appropriate for the high school level. Combining some of the resources and learning activities from this module with the Unigraph LAP would make an effective teaching unit. (See Bibliography, Page 70 for source of Unigraph materials.)

PRE-TEST

1. The lowest cost life insurance is

   a. endowment
   b. limited payment life
   c. whole life
   d. term

2. Which of the following individuals would be least likely to need life insurance protection?

   a. a single woman of twenty-five with a dependent mother
   b. a married man of forty with three teenage children
   c. a widow age 35 with two minor children
   d. a married man age 66, retired

3. The least useful way of determining the cost of an insurance policy is

   a. the surrender index
   b. the interest adjusted index
   c. the net cost method
   d. the company retention method

True or False

____ 4. It's more important to consider how likely you are to suffer a loss in making insurance decisions than it is to consider the severity of the loss.

____ 5. Life insurance policies never pay on suicides.

____ 6. Life insurance companies all charge about the same amount for similar policies so shopping isn't necessary.

____ 7. Whole life insurance is the best policy choice for all insurance needs for all individuals.

____ 8. Since life insurance premiums keep going up as you get older, you save money by buying whole life as young as you possibly can.

____ 9. Because of the risk involved in flying, flight insurance always makes good sense.

____ 10. An individual's need for life insurance can be determined by multiplying gross annual salary by five.

MODULE OBJECTIVES

The Michigan Guidelines in Consumer Economics includes the following student performance objective relating to insurance:

> Michigan Objective 18. In planning a total insurance program for a given family, including health, automobile, life, homeowners/renters and other property insurance, the student will:
>
> a) identify the need, if any, for insurance
>
> b) distinguish between the various types of insurance policies
>
> c) prepare a total insurance plan, including type and amount of insurance suited to the family's needs
>
> d) discuss factors to consider in selecting an insurance representative.

While this module discusses the insurance concept and managing risk generally, it concentrates on one major kind of insurance — life insurance. Therefore the objectives of this module are more specific but related to the broad objectives of the Michigan Guidelines.

MODULE OBJECTIVES AND KEY IDEAS

1. THE INSURANCE CONCEPT

   Objective: The student will explain the insurance concept which includes a definition of risk, the law of large numbers, the elements of an insurable risk, and the principle of indemnity.

   Key Idea: Insurance is not gambling. Insurance is based on certain principles. It's a device for reducing or transferring risk to insure financial security.

2. MANAGING RISK

   Objective: The student will apply the following principles of risk management to selected insurance problems:
   1. Don't risk more than you can afford to lose.
   2. Don't risk a lot for a little.
   3. Don't risk a little for a lot.
   4. Consider the severity of loss more than the probability of loss.

Key Idea: Certain basic principles apply to a wide variety of insurance types. With an understanding of these principles, the student will be able to make intelligent insurance decisions. The student will then be insuring as opposed to pre-paying or gambling, and will be better able to get the most value for limited insurance dollars.

3. WHAT IS LIFE INSURANCE

Objective: The student will a) identify the primary and secondary purposes of life insurance, and b) explain the risk pooling concept on which life insurance is based.

Key Idea: In making life insurance decisions, an individual must be aware of the primary purpose of life insurance: to provide financial protection against the premature death of a wage earner on whom others are financially dependent. Other uses may be important, but are secondary.

4. WHO NEEDS LIFE INSURANCE PROTECTION

Objective: Given selected case studies, the student will identify the varying needs for life insurance protection.

Key Idea: Some people have no need for the protection element of life insurance while others have a need for very large amounts of life insurance protection.

5. HOW MUCH LIFE INSURANCE

Objective: Given selected case studies, the student will decide on the amount of life insurance protection necessary, and explain the basis for the amount decided.

Key Idea: To some extent, the amount of insurance protection needed is a subjective decision and depends on an individual's or family's income, lifestyle, and goals. Some guidelines do exist for determinging a suitable amount, and students should be encouraged to use these in planning their life insurance programs.

6. TYPES OF LIFE INSURANCE

Objective: The student will identify a least two characteristics of each of the following types of life insurance: Group life insurance, industrial life insurance, and ordinary life insurance; level term, decreasing term, straight life, limited payment life, and endowment.

Key Idea: Insurance companies offer what sometimes appears to be a confusing and unlimited array of insurance policies. Actually, a limited number of policy types are available. They are, however, offered with a number of variations to suit various needs. With a knowledge of basic policy types, the student will be better able to decide on the appropriate type of policy.

7. CHOOSING THE TYPE OF POLICY

Objective: Given case studies, the student will select a type of life insurance or mix of types appropriate to the case study and provide a rationale for the selection.

Key Idea: Life insurance policies are either pure protection or a combination of protection and savings. Some people may be grossly underinsured because they have chosen protection and savings, a more expensive type of policy then is really necessary. Ideally, an individual should determine the amount of insurance needed and buy this amount! If the individual can afford this amount of life insurance in a policy that combines pure protection with a savings account element, then the advantages and disadvantages of saving in this manner should be considered.

8. SHOPPING FOR LIFE INSURANCE

Objective: The student will analyze the difference between premium and cost in life insurance and evaluate two common methods of determining cost.

Key Idea: Big differences exist in the cost of similar life insurance policies, and the annual premium alone does not always reflect the true price of insurance. In shopping for a whole life policy, the interest adjusted cost index is a more accurate way of determining the cost of a policy than the net cost method. Price information on the policies of many large companies is available in many communities at the local library in an annually published book Best's Flitcraft Compend for those brave enough to figure out its abbreviations and charts.

9. POLICY OPTIONS AND PROVISIONS

Objective: Given the following list of insurance options and policy provisions, the student will correctly identify each: renewable, convertible, waiver of premium, guaranteed insurability, accidental death, beneficiary designation, incontestable clause, suicide clause, reinstatements rights, grace period, mistatement of age, policy loan, nonforfeiture options, dividends.

Key Idea: Once the basic insurance decision has been made, decisions about policy options should be made. The consumer should be aware of certain policy provisions which may increase or limit the benefit he/she receives from the policy.

THE INSURANCE CONCEPT

OBJECTIVE: The student will explain the insurance concept which includes a definition of risk, law of large numbers, the elements of an insurable risk, and principle of indemnity.

KEY IDEA: INSURANCE IS NOT GAMBLING. Insurance is based on certain principles. It is a device for reducing or transferring risk to insure financial security.

LEARNING ACTIVITIES

Ask students to list all the possible risks to which they might be exposed today. After they've had time to exhaust the possibilities, ask them to identify which are speculative risks and which are pure risks. Hold the list until a later discussion of insurable risks.

SUMMARY

The definitions of insurance are numerous. The following is a definition of insurance from the consumer point of view: Insurance is financial protection against certain types of economic loss. The individual pays a small sum now to avoid the possibility of a large loss later. Thus individuals can build financial security and avoid worry over catastrophic losses that might hurt the family. With an adequate insurance program, illness, disability, auto accidents, a burned home, and death may be traumatic events but will not destroy the family financially, because the family insured against those events.

The following is a technical definition of insurance which defines it not by what it does, but by how it works: Insurance is a social device for reducing risk by combining a large number of exposure units to make losses predictable. The insured transfers the risk and pays a premium for the elimination or reduction of risk.

Let's examine the components of this definition. First, what is risk? In an insurance context risk can be defined as the possibility of financial loss. (Although the probability is small, it is possible that your house might burn down and that you suffer financial loss.) A helpful distinction here is the difference between pure risk and speculative risk. Pure risk is the chance of a loss, or the chance of no loss. Speculative risk offers a chance of loss or gain. Investments are an example of speculative risks. Their value may go up or down. There is a chance of loss or gain. Such speculative risks are not insurable. The chance that your home will burn down after being struck by lightning offers the possibility of a loss, or of no loss (but not a gain) and is an insurable pure risk.

LEARNING ACTIVITIES

Show the filmstrip "Understanding Insurance." Go through the filmstrip slowly making sure that students follow the concepts as explained and that they have a chance to interact with the ideas presented.

Ask a student to flip a coin twice. Did the law of probability work? Have the student flip the coin ten times. Does the result come out closer to what one would expect according to the law of probability? Ask everyone in the class to flip a coin 100 times. Have them keep track of the number of heads and tails. What was the closest to a 50/50 split? What was the farthest from a 50/50 split? Add up the results from the whole class. Does the total result come even closer to a 50/50 split? Do the results verify the theory presented in the filmstrip?

For a much more elaborate discussion of probability and specifically how it works in life insurance, see "Sets, Probability and Statistics: The Mathematics of Life Insurance" available free from the American Council of Life Insurance

SUMMARY

The definition of insurance mentions "combining a large number of exposure units to make losses predictable." The law of large numbers and probability theory are the foundation of insurance as we know it today. Probability theory tells that while certain events appear to happen by chance, they tend to happen with a certain regularity over a period of time. If the probability of an event happening can be determined, the the risk can be shared by a number of people exposed to that risk, and a premium figured which will pay the individual who suffers the financial loss.

However, probability works well only with large numbers. For example, if you flip a coin, probability indicates that there is a fifty/fifty chance that it will come up heads. It would seem logical then that if you flip twice, it will come up heads once and tails once. However, as you may have experienced, it doesn't always work that way. However, the more times that you flip the coin, the more likely it is that 50% will come up heads, and 50% tails. If you flip 100 times, you will come closer to an even 50/50 split. Probability works better with large numbers. If the chances are that one out of every 1000 houses will burn, then out of 100,000 houses, it is likely that only 100 will burn. But to say that out of a particular group of 1000 houses, only 1 will burn because only 1 out of 1000 burns is rather risky. The law of large numbers says that as the number of exposure units increase, the more certain it is that losses can be predicted with accuracy.

Let's assume that the insurance company knows from past experience that, on the average, 1 out of every 1000 homes burns each year. If everyone's home is worth $25,000, then the insurance company knows that it must collect $25 each year from each of the 1000 homeowners to pay the claim of the one individual whose home will burn. The price of of pure protection is $25. The company will probably add a small sum for the profit of the company, and perhaps another small sum to put in a fund just in case more homes burn down in one given year than probability would indicate. If the insurance company insured only 1000 homes, it would be taking a big chance. The laws of probability and large numbers indicate that out of <u>all</u> houses in the United States,

LEARNING ACTIVITIES

How many risks previously identified are insurable risks? How many of the risks should be retained? Which risks should be insured against?

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SUMMARY

1 out of 1000 will burn. However, it is possible that out of the certain 1000 homes that the insurance company insured, that three or four would burn (while in another company's 2000 houses none would burn). The insurance company needs to insure a large number of homes before it can rely on the law of probability and have any certainty that its premiums will be adequate.

Because the insurance company knows how likely it is that a certain event will happen (such as how many cars will be involved in auto accidents every year out of the total number being driven), it should be able to determine the premium that should be paid to cover losses. The people in the group are sharing the risk because each contributes a small sum to a pool of funds so that in case they happen to suffer the loss, the pool will pay their loss.

Our definition of insurance states that the insured "transfers the risk and pays a premium for the elimination or reduction of risk." An individual has some choices regarding risk. A choice could be made to avoid the risk. Rather than buy collision insurance for a car, a motorist could decide to sell the car and use public transportation, thus avoiding the risk of financial loss from a damaged car. The individual could reduce the probability of loss by taking refresher classes in driver education and by driving defensively, but the possibility of loss would still exist. The individual could decide to retain the risk -- to take the chance, and hope that damage to the car is avoided. Or the individual could transfer the risk, purchase insurance and transfer the risk of loss to the insurance pool (usually an insurance company).

Some of the characteristics of an <u>insurable</u> risk include the following:

1. There should be a large number of exposure units.
2. The loss should be definite. The insurance company wants to be sure that a loss actually occurred. Fire and death are obvious, however, theft is more difficult, and disability (a back injury for example) is even more of a problem.

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LEARNING ACTIVITIES

Assign a group of students to investigate how the market value of household furnishings is determined by the insurance company in the event that a policyholder makes a claim on a homeowner's policy. If it costs $500 to replace the television, should the insurance company pay $500 even though the TV being replaced was 10 years old? Why or why not? Set up a debate over the principle of idemnity. Is it really good for consumers? Is it fair? Is it likely to be changed?

SUMMARY

3. The loss must happen by chance or accident. It should not be a loss over which the insured has no control. It should not be a loss that the insured can deliberately cause. If the insured does cause the loss he/she is generally not allowed to recover the financial loss.

4. The cost of the insurance should be economically feasible. The premium must be reasonable and affordable or the insurance would be little better than assuming the risk.
5. The risk should be spread over a geographically wide area. Geographic distribution prevents the company from going bankrupt if a disaster hits one area. For example, if the greater part of a city burned down, as happened in Chicago in the late 1800's, and if a homeowner's insurance company had offered insurance only to that city's residents, it is not likely that the company would survive the large number of claims.

Another principle underlying the concept of insurance is the principle of idemnity. The principle of indemnity provides that an individual should be placed in the same economic position that she/he was in before the loss; that the individual should not profit from the loss. If your car is damaged in an accident, the insurance company does not buy you a new car, but either fixes the old one or gives you the cash value of your car before it was damaged, even if that value is very small. If your car had a cash value of $100, the insurance company will pay you $100, not the cost of replacing it. The insurance company will not put you in a better economic position than you were in before the collision. If it were to do so, there would be built-in incentives for people to cheat and damage their own vehicles.

Many health insurance policies state that you will not be able to collect from two insurance companies for a illness, since some individuals would be encouraged to purchase a number of policies and then become "sick," collecting several times for one hospital bill. Such collection is discouraged because it would increase the cost of insurance to all consumers.

LEARNING ACTIVITIES

Consumer Issue: At the writing of this module, redlining in insurance has become an issue. Homeowners in certain areas are unable to get insurance on their homes or else must pay prohibitively high prices for the coverage. Part of the problem stems from the replacement clause in the policy which enables homeowners to collect substantially more than their home is worth on the real estate market if it burns. If this is an issue in your area, invite an insurance company representative and/or a consumer or redlining group representative to explore the problem and possible solutions with your class.

SUMMARY

Another example: If contents are stolen from your home, you will not be reimbursed for the full replacement cost but only for their fair market value at the time that they were stolen (unless you carried special floater policies for items such as jewelry and antiques). You will be put into the same economic dollar position you were in before the loss, even though that dollar amount will not put you in possession of the same number of home furnishings you had before the theft.

An exception to the indemnity principle is homeowners insurance on the dwelling itself. The dwelling can be insured for its replacement cost (the cost of rebuilding a similar home) even though that may be more than the market value of the home. The rationale is that an individual is not likely to burn his/her home with all its contents to collect the higher insurance payment.

Life insurance is not based on the indemity principle. How would you determine the dollar value of a human life? If an individual had no dependents, could you say that his/her life had no economic value? If an unemployed person with six children died, would you assign his/her life a high or low dollar value? Because of these difficulties, an individual can purchase as much life insurance as is desired and can be afforded. Restraints against murder are built into the system by limiting who has the right to purchase insurance on the life of another individual, and against suicide by refusing to pay claims if insurance if purchased within two years of the suicide.

MANAGING RISK

OBJECTIVE: The student will apply the following principles of risk management to selected insurance problems:

1) Don't risk more than you can afford to lose
2) Don't risk a lot for a little
3) Don't risk a little for a lot
4) Consider the severity of loss more than the probability of loss.

KEY IDEA: Certain basic principles apply to a wide variety of insurance types. With an understanding of these principles, the student will be able to make intelligent insurance decisions. The student will then be insuring as opposed to pre-paying or gambling, and will be better able to get the most value for limited insurance dollars.

LEARNING ACTIVITIES

Of all the risks that the students identified previously, which ones would they choose to insure against? Why? Do some students have different priorities than others? Why might that be?

SUMMARY

Which risks should an individual insure against? Which risks should an individual retain? The following are rules for managing risk:

1. DON'T RISK MORE THAN YOU CAN AFFORD TO LOSE. Which risks you choose to retain and which you choose to insure against depend partly on how wealthy you are -- how much you have set aside in savings. How much can you afford to lose? Would loss of your $3,000 car be a financial disaster? Or would it be a mere setback in your savings plan? If your home were destroyed with all your possessions, how severely would you be affected? If you became ill, how long could you afford the hospital bills? If you were disabled, what effect would this have on your family's income? If the principal wage earner in the family died, what would be the family's financial situation? An individual or family can survive a variety of minor financial setbacks, however, certain large losses would be devastating. These large losses should be insured against because they represent more than the family or individual can afford to lose.

   Along with the maxim "don't risk more than you can afford to lose" goes the large loss principle. As noted by Elliott and Vaughan in Fundamentals of Risk and Insurance: "An insurance

LEARNING ACTIVITIES

SUMMARY

contract is most meaningful when it is used to insure against losses the individual could not bear himself. Since there are a limited number of dollars available to protect against risk, they should be spent where their impact is most beneficial, in the protection against large losses."

Review with students the coverages listed as "essential Protection" in the Rough Notes chart. Invite an insurance agent to the class to summarize the differences in cost between policies with only "essential protection," policies with "important protections" added, and those with "optional protections" included. Are the price differences significant? How much coverage would the students buy?

Insurance against large losses is the least expensive coverage. Page 12 from Rough Notes Personal Insurance Guide, offers an idea of the coverages that are lowest in cost and most essential, those that are desirable, and those that are nice but not essential. In pricing these policies, consumers will find that the essential coverages offer protection against major catastrophic losses and do so in a relatively inexpensive manner. The consumer who has limited dollars available for insurance coverage should consider these coverages first and add on others later if finances permit and if the additions make sound economic sense at that point.

2. DON'T RISK A LOT FOR A LITTLE. Don't risk a large financial loss for the sake of a small premium. A premium of $200 for homeowners insurance is a small premium to cover the loss of a $50,000 home. To forego homeowners insurance for the sake of the $200 premium is risking a lot for a little.

Ask selected students to call insurance agents to find out how much teenagers could save by increasing the deductible on their collision insurance from $100 to $250. Is the difference large enough to justify doing so?

3. DON'T RISK A LITTLE FOR A LOT. Don't pay a large premium to get a small dollar amount of coverage. The deductible on auto insurance is a good example. By increasing the deductible on the collision portion from $100 to $250, some individuals can save $40 on their on their insurance. By not increasing the deductible, those individuals are paying an extra $40 to get just $150 worth of extra coverage (thus risking a little -- $150 -- for a lot -- $40). Rather than insuring, the individual is prepaying -- having the insurance company do the budgeting for him/her so it won't be necessary to come up with out-of-pocket cash when the need arises.

LEARNING ACTIVITIES

Save newspaper clippings about severe auto accidents, burned homes, or large jury liability awards. Or, ask students about such catastrophes of which they are aware. (For example, has a student rented an apartment and lost all personal belongings when the building burned, and the student was without insurance?) Ask students to research the "average" liability award, the "average" cost of a major medical injury, the "average" cost of replacing

SUMMARY

Most types of insurance have deductibles. The larger the deductible the less expensive the insurance. Ideally the consumer should take the largest deductible that can possibly be afforded. "First dollar" coverage, coverage with no deductible or small deductibles, costs the most because it is most likely to happen. An individual who has thought out a money management plan will have money in reserve to cover these expenses and therefore does not need expensive insurance to provide first dollar coverage. Thus money will be freed to purchase large amounts of the more essential coverages (perhaps $300,000/$1,000,000 personal liability in the case of auto insurance).

Examples of other deductibles: Homeowners can increase the standard deductible from $50 or $100 to $500. Since most minor damage to a home (such as broken windows, a storm damaged roof) comes to less than $500, there should be a substantial reduction in premium to reflect the fact that the company isn't likely to have to process a variety of small claims. Disability insurance can be purchased with a one-week or a six-month deductible — the company doesn't have to pay out income until after the deductible period. Since most disabilities are of a short duration, disability insurance with six-month deductible can be purchased at a reasonable price.

4. CONSIDER THE SEVERITY OF LOSS MORE THAN THE PROBABILITY. How severe the financial loss will be is more important than the probability of loss. It is likely that at some point in time a motorist will be involved in a fender-bender which will involve damage to the car. It is much less likely that a motorist will be at fault in an auto accident in which someone dies or is severely disabled; however, the consequences of a lawsuit based on death or disability are much more drastic than a damaged car — juries have been known to award hundreds of thousands of dollars in damages. The chances that an individual's home will burn are quite remote, but the financial result would be catastrophic for most people. Therefore, in deciding on insurance purchases, severity

LEARNING ACTIVITIES

a home, the "average" cost of replacing personal possessions. What percentage of auto accidents could be classified as "catastrophic?" Even though the percentage is small, would they perfer to insure against the probable or the more severe accident?

SUMMARY

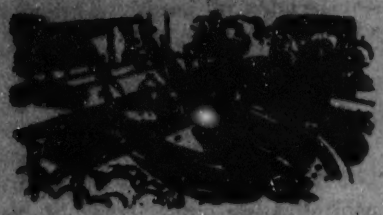
of the possibile loss is more important than its probability. It is probable that an individual or family will suffer from colds and flu during the year resulting in visits to the doctor as well as medical prescriptions. The cost of such medical care should be budgeted into the family's yearly expenses rather than insured against. A health insurance policy with high dollar limits and liberal benefits to cover catastrophic illnesses is more important than small deductibles.

A GUIDE TO PERSONAL

The true measure of your need for insurance should not be based upon the probability of loss, but rather upon the amount of loss you might suffer.

YOUR HOME

PERSONAL PROPERTY



ESSENTIAL PROTECTION

These coverages are basic to every insurance program. They protect you against losses that might be very serious but could be disastrous or financially crippling for your family.

HOMEOWNERS "package" policy insuring your home (at least 80% to value) or mobile home against most perils, plus coverage for personal property and protection against *crime* and *liability* risks. (Mandatory deductibles apply in most states.)

OR

Fire and Extended Coverage insurance (including wind, hail, riot, explosion, aircraft, and vehicle damage, smoke) to cover: • YOUR HOME • GARAGE • OTHER BUILDINGS

Additional Living Expense insurance to pay you extra living costs while your home is untenantable after disaster such as living in hotels or motels. (Automatically included in Homeowners package policy.)

Earthquake insurance, if applicable

Flood insurance, if eligible.

HOMEOWNERS insurance, covering your personal property in your home, mobile home or apartment against most perils. (Mandatory deductibles apply in most states.)

OR

Fire and Extended Coverage insurance to cover personal property:
• AT YOUR RESIDENCE
• AWAY FROM YOUR HOME

Earthquake insurance, if applicable.

Flood insurance, if eligible.

NOTE: *Condominium owners, apartment dwellers and renters of homes may enjoy the advantages of Homeowners insurance with a comparable package policy.*

IMPORTANT PROTECTION

These coverages protect you against losses that might be very serious but could possibly be met out of savings.

Vandalism insurance.

Broad Perils insurance to cover loss by Falling Objects, Weight of Snow, Collapse, Rupture of Steam or Hot Water Heating System or Appliance, Water Damage, Freezing, Electrical Injury to Appliance.

Special Perils insurance to cover home against All Physical Losses, except those excluded.

Replacement Cost insurance to pay cost of repair or replacement without deduction for depreciation.

Vandalism insurance.

Crime insurance covering loss by:
• BURGLARY, ROBBERY, THEFT under circumstances where probability of theft could occur.

Broad Perils insurance.

All Risks insurance on specific valuable property:
• JEWELRY • FURS • CAMERAS
• FINE ARTS • SILVERWARE
• MUSICAL INSTRUMENTS
• COLLECTIONS

OPTIONAL PROTECTION

These coverages are desirable because they convert possible losses into a small annual expense.

Glass insurance to cover breakage of windows or panes from any cause.

Trees, Shrubs, Plants insurance to cover your lawn and shrubbery.

Fire Department Service Charges insurance to pay charges of fire departments, if applicable.

Motorboat or Yacht insurance protecting your boat, motor and equipment.

All Risks insurance covering unscheduled personal property against All Physical Damage losses.

Broad Theft insurance covering personal property taken from unattended autos or watercraft.

Safe Deposit Box insurance.

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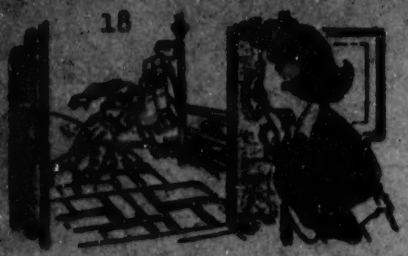
INSURANCE PROTECTION



LIABILITY HAZARDS

AUTOMOTIVE HAZARDS

PERSONAL PROTECTION

HOMEOWNERS insurance.

OR

Personal Liability insurance (high limits) to cover bodily injury or property damage claims arising from:

- YOUR RESIDENCE
- ACTIVITIES
- PETS
- USE OF SMALL BOATS
- BICYCLES
- PERSONAL ACTS

Workmen's Compensation or **Employer's Liability** insurance to cover injuries to servants in accordance with law, if applicable.

Boat Liability insurance for large and/or powerful watercraft.

Auto Liability insurance (high limits) to cover your liability for Bodily Injury or Property Damage arising out of:

- YOUR AUTOS
- OTHER AUTOS DRIVEN BY MEMBERS OF YOUR FAMILY
- TRAILERS
- SNOWMOBILES, MINI-BIKES and other types of recreational motor vehicles (except golf carts on golf courses) away from your premises.

Aircraft Liability, if applicable.

Auto Medical Payments insurance (high limits) to pay medical bills of persons injured in your autos or members of your family in traffic accidents.

Life insurance for head of family to meet the financial hardships brought on by death or retirement:

- LIFE INSURANCE for ESTATE PLANNING
- RETIREMENT INCOME

Health insurance to cover:

- LOSS OF INCOME resulting from injury or sickness to head of family.

Hospitalization and **Major Medical** insurance to cover hospital and surgical bills for all members of your family.

Excess Liability or **Personal Umbrella Liability** insurance to cover catastrophe liability claims.

Medical Payments insurance (high limits) to pay medical, hospital and doctor bills for injury to your guests, friends or neighbors, liable or not.

Vehicle Physical Damage insurance to cover loss or damage to private passenger cars, recreational vehicles and trailers by:

- COLLISION OR UPSET
- COMPREHENSIVE PERILS (all physical losses including theft, except loss by collision).

Aircraft Hull insurance, if applicable.

Life insurance for head of family to cover specific needs such as:

- MORTGAGE CANCELLATION
- EDUCATION OF YOUR CHILDREN
- LIFETIME INCOME FOR YOUR WIDOW

Life insurance on your wife.

Damage to Property of Others insurance to cover property damage caused by anyone in your family, liable or not.

Uninsured Motorist insurance to pay judgments for bodily injury which members of your family are unable to collect from uninsured motorists or hit-and-run drivers.

Auto Death, Disability insurance for death or disability resulting from traffic accidents.

Towing, Labor Charges insurance.

Life insurance for your children.

Life insurance to be paid to your family survivors.

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WHAT IS LIFE INSURANCE?

OBJECTIVE: The student will a) identify the primary and secondary purposes of life insurance, and b) explain the risk pooling concept on which life insurance is based.

KEY IDEA: In making life insurance decisions, an individual must be aware of the primary purposes of life insurance: to provide financial protection against the premature death of a wage earner on whom others are financially dependent. Other uses may be important, but are secondary.

LEARNING ACTIVITIES

Ask students: Why would you buy life insurance? Are there a number of reasons for buying it? Make a list of all the possible reasons for buying life insurance, and then ask students to rate them in order of priority. Which are most important? Which are least important?

SUMMARY

"Life insurance is protection against the premature death (often sudden and unexpected) of a person who is responsible for the financial security of others." Oshlbeck, The Consumer's Guide to Life Insurance, p. 15.

"Life insurance is used for a variety of purposes, but the main one is that of providing financial protection for the family in the event that the wage earner dies. The policy proceeds serve to replace the lost income, and permit the family to continue as nearly as possible the same standard of living they enjoyed before the death. In addition to this primary function, life insurance serves as a vehicle for savings and the accumulation of funds for specific purposes such as retirement or the education of children." Elliott and Vaughan, Fundamentals of Risk and Insurance, p. 179.

"To be sure, life insurance can have other uses besides financial protection for the family. It can be used as a tax shelter, a forced-savings plan, a backup device to insure the payment of debts. It can be used to buy out the heirs of a business partner or to compensate a corporation for the death of a key executive. Any proficient life insurance agent can add to the list. But any consumer who would use life insurance for such purposes had best consult an expert in estate planning or an attorney. This book will concentrate on family financial protection, which is what leads the overwhelming majority of people to buy life insurance." Consumer Reports, the Consumers Union Report on Life Insurance, 1977 edition, p. 16.

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LEARNING ACTIVITIES

Ask students: Before life insurance was available, how did families survive the death of a wage earner? How much financial security did families have? Did families take care of each other in the form of extended families? Would it be better to move back home with Mom and Dad after a spouse's death rather than to buy life insurance?

Using the American Council of Life Insurance's sample policy, determine what exceptions there might be to the policy's central promise to pay on death. How about war? Hazardous occupations?

SUMMARY

Life insurance can be used for a variety of purposes, but the thing it does best, and which no other financial device can do, is provide money for families whose wage earner has died before accumulating enough money to take care of the family after his/her untimely death. Death cannot be prevented, but its harsh economic effects on dependents can be prevented.

The names of the early insurance companies made their primary purpose clear: the Society for the Assurance of Widows and Children; the Corporation for Relief of Poor and Distressed Widows and Children of Presbyterian Ministers. As will be discussed on page 42, the 'savings element' of some types of insurance policies was added later in response to a new type of premium payment plan.

In the life insurance contract, the insurance company promises to pay a set sum of money to the beneficiary named by the insured, provided the insured dies while the policy is in effect. This central promise is quite clear, and life insurance contracts tend to be the most readable and clearly understood. The limitations on this promise have been reduced to a minimal number over the years by insurance regulation. Most of the fine print in contracts is concerned not with the willingness of the company to pay in the event of death, but with non-forfeiture rights, waiver of premium provisions, loan policies and payment due dates.

Like other types of insurance, life insurance is a form of risk-pooling. Everyone who wishes to be insured puts a small sum of money into the pool. The pool pays a larger sum to the beneficiary of the deceased member of the pool. The hazard being insured against, death, is not merely a possibility, but a sure thing. Everyone will die eventually. The key then is to keep enough money in the pool to pay any claims that are made against it. This is not as difficult as it may sound since statistics on the age at which an individual is likely to die have been kept for long periods of time, and the reliability of these statistics is much greater than those for other types of insurance.

The statistics most widely in use today are called the 1958 CSO Commissioners Standard Ordinary mortality tables (see p. 23). The

LEARNING ACTIVITIES

Consumer Issue: A number of groups claim that women are discriminated against in many insurance related areas. In life insurance, the discrimination is supposedly based on life expectancy. If a woman buys an annuity, she receives considerably less monthly income than a man. If she buys life insurance, she pays a lower premium. In most companies, it's based on three years difference in ages, but a woman's life expectancy is more than three years longer than a man's. Stage a debate between your students: Should women pay still lower premiums for life insurance? Should premiums and annuity payments for men and women be the same regardless of their life expectancy?

Have students work the problems in the chapter "The Mortality Table and Life Insurance" in the booklet "Sets, Probability and Statistics" available free from the American Council of Life Insurance.

SUMMARY

tables indicate how many males out of every 10,000,000 born are likely to die at any given age. The table does not correlate direct with exact mortality statistics because the table is based on insurance companies' experience with mortality rather than that of the population as a whole. The rationale is that insurance companies may experience "adverse selection" — people who are very healthy may not insure themselves, while those not as healthy may purchase large amounts of insurance. Also, the table is dated 1958 and in the past twenty years life expectancy has increased considerably. Thus the death rate in the tables is slightly higher than that of the population at large, and is considerably higher than that for women. Premiums for women are usually based on the tables for males, but an age three years younger than the woman's actual age is used.

Let's look at a simple example of how life insurance rates are determined. The table indicates that at age 27, 1.99 out of every 1000 males are likely to die. Thus 100,000 males would have to pay into a pool $1.99 for every $1000 they wish paid to their beneficiary. To put it another way, it 100,000 males pay $1.99 into a pool, the pool will have $199,000. If 199 men die as the table predicts, the pool would be able to pay $1000 to the beneficiaries of each.

Assume that the following year the group found an additional 199 people to replace those in the pool who had died. The group would then be age 28, and the death rate would be 2.03 per 1000. The cost for every $1000 of insurance would be $2.03. Assuming that each year replacements are found for those who die, at age 45 the cost would be $5.35 for every $1000 of insurance, at age 75, $73.37, and at age 95, $351.24. The premium would go up each year to compensate for the rising death rate.

These amounts would cover only the cost of pure protection. In reality, someone has to handle the money for the pool -- usually insurance companies serve in this capacity. Added to the cost of pure protection is the expense of issuing the policy and collecting the premium, as well as a profit for the company. This is only a very simple example, however, to show how the risk pooling concept works.

LEARNING ACTIVITIES

Have students form their own hypothetical life insurance pool. Would they want to exclude anyone with several speeding tickets? Members of the hockey team? Why or why not? Would they include these people, but charge them a higher premium?

SUMMARY

Insurance actuaries have to determine rates for companies with a number of different policies, some of them short term policies, and some of them long term policies. Other factors which are taken into consideration are the companies' experience with people dropping out of the pool early, and the amount of investment income earned on the money the company has until it pays death claims. For a more detailed explanation of how premiums are figured, consult insurance texts in the local library.

An insurance pool, however usually does not accept everyone who wishes to join. There are some restrictions. For instance, those with incurable illnesses are usually rejected. If they were not, people would not apply for insurance until they were sure they needed it. This would have the effect of keeping the pool very small with a high risk of loss. The law of large numbers would no longer apply, since the poeple who joined the pool would not be a random sample, but a select group of high risks. More people would die in the group than the mortality statistics indicated. Therefore, the cost of insurance in the small group would be very high. Likewise, people with health problems like high blood pressure, diabetes, or overweight would either be excluded or charged a higher premium to compensate for the additional risk that the group was assuming. They would be classed as "sub-standard risks" -- they would still be able to get life insurance, but only at higher rates.

This is a very simplified version of rate setting and the pooling concept, but demonstrates the technical basis on which life insurance is founded, and the way in which protection for dependents is provided.

1958 CSO, COMMISSIONER'S STANDARD ORDINARY

Age Male	Number Living	Number Dying	Death Rate per 1,000	Expectation of Life, Years	% Living to 65
	10,000,000	70,800	2.82	68.30	68.01
1	9,929,200	19,475	1.76	67.78	68.49
2	9,911,725	15,066	1.52	66.90	68.61
3	9,896,659	14,449	1.46	66.00	68.72
4	9,882,210	13,896	1.40	65.10	68.82
5	9,868,875	13,822	1.35	64.19	68.91
6	9,855,053	12,812	1.30	63.27	69.01
7	9,842,241	12,401	1.26	62.35	69.10
8	9,829,840	12,091	1.23	61.43	69.18
9	9,817,749	11,879	1.21	60.51	69.27
10	9,805,870	11,865	1.21	59.58	69.36
11	9,794,005	12,047	1.23	58.65	69.44
12	9,781,958	12,325	1.26	57.72	69.52
13	9,769,633	12,896	1.32	56.80	69.61
14	9,756,737	13,562	1.39	55.87	69.70
15	9,743,175	14,225	1.46	54.95	69.80
16	9,728,950	14,983	1.54	54.03	69.90
17	9,713,967	15,737	1.62	53.11	70.01
18	9,698,230	16,390	1.69	52.19	70.12
19	9,681,840	16,846	1.74	51.28	70.24
20	9,664,994	17,300	1.79	50.37	70.36
21	9,647,694	17,655	1.83	49.46	70.49
22	9,630,039	17,912	1.86	48.56	70.62
23	9,612,127	18,167	1.89	47.64	70.65
24	9,593,960	18,324	1.91	46.73	70.88
25	9,575,636	18,481	1.93	45.82	71.02
26	9,557,155	18,732	1.96	44.90	71.16
27	9,538,423	18,981	1.99	43.99	71.30
28	9,519,442	19,324	2.03	43.08	71.44
29	9,500,118	19,760	2.08	42.16	71.58
30	9,480,358	20,193	2.13	41.25	71.73
31	9,460,165	20,718	2.19	40.34	71.89
32	9,439,447	21,239	2.25	39.43	72.04
33	9,418,208	21,850	2.32	38.51	72.21
34	9,396,358	22,551	2.40	37.60	72.37
35	9,373,807	23,528	2.51	36.69	72.55
36	9,350,279	24,685	2.64	35.78	72.73
37	9,325,594	26,112	2.80	34.88	72.93
38	9,299,482	27,991	3.01	33.97	73.13
39	9,271,491	30,132	3.25	33.07	73.35
40	9,241,359	32,622	3.53	32.18	73.59
41	9,208,737	35,362	3.84	31.29	73.85
42	9,173,375	38,253	4.17	30.41	74.13
43	9,135,122	41,382	4.53	29.54	74.44
44	9,093,740	44,741	4.92	28.67	74.78
45	9,048,999	48,412	5.35	27.81	75.15
46	9,000,587	52,473	5.83	26.95	75.56
47	8,948,114	56,910	6.36	26.11	76.00
48	8,891,204	61,794	6.95	25.27	76.49
49					

Age Male	Number Living	Number Dying	Death Rate per 1,000	Expectation of Life, Years	% Living to 65
50	8,763,306	72,902	8.32	23.63	77.01
51	8,689,404	79,160	9.11	22.82	78.24
52	8,610,244	85,758	9.96	22.03	78.98
53	8,524,486	92,232	10.82	21.25	79.76
54	8,431,654	100,337	11.90	20.49	80.65
55	8,331,317	108,361	13.00	19.71	81.65
56	8,223,010	116,849	14.21	18.97	82.70
57	8,106,161	125,970	15.54	18.23	83.89
58	7,980,191	136,663	17.00	17.51	85.22
59	7,844,528	145,830	18.59	16.81	86.69
60	7,698,698	156,582	20.34	16.12	88.33
61	7,542,106	167,736	22.24	15.44	90.17
62	7,374,370	179,271	24.31	14.78	92.22
63	7,195,099	191,174	26.57	14.14	94.52
64	7,003,925	203,894	29.04	12.51	97.10
65	6,800,531	215,917	31.75	12.90	100.00
66	6,584,614	228,749	34.74	12.31	
67	6,355,865	241,777	38.04	11.73	
68	6,114,088	254,835	41.68	11.17	
69	5,859,253	267,241	45.61	10.64	
70	5,592,012	278,426	49.79	10.12	
71	5,313,586	287,731	54.15	9.63	
72	5,025,855	294,766	58.65	9.15	
73	4,731,089	299,289	63.26	8.69	
74	4,431,800	301,894	68.12	8.24	
75	4,129,906	303,011	73.37	7.81	
76	3,826,895	303,014	79.18	7.39	
77	3,523,881	301,997	85.70	6.98	
78	3,221,884	299,829	93.06	6.59	
79	2922,055	295,683	101.19	6.21	
80	2,626,372	288,848	109.98	5.85	
81	2,337,524	278,983	119.35	5.51	
82	2,058,541	265,902	129.17	5.19	
83	1,792,639	249,858	139.38	4.89	
84	1,542781	231,433	150.01	4.60	
85	1,311,348	211,311	161.14	4.32	
86	1,100,037	190,108	172.82	4.06	
87	909,929	168,455	185.13	3.80	
88	741,474	146,997	198.25	3.55	
89	594,477	126,303	212.46	3.31	
90	468,174	106,809	228.14	3.06	
91	361,365	88,813	245.77	2.82	
92	272,552	72,480	265.93	2.58	
93	200,072	57,881	289.30	2.33	
94	142,191	45,026	316.66	2.07	
95	97,165	34,128	351.24	1.80	
96	63,037	25,250	400.56	1.51	
97	37,787	18,456	488.42	1.18	
98	19,331	12,914	668.15	.83	
99					

WHO NEEDS LIFE INSURANCE PROTECTION?

OBJECTIVE: Given selected case studies, the student will identify the varying needs for life insurance protection.

KEY IDEA: Some people have no need for the protection element of life insurance while many others have a need for very large amounts of life insurance protection.

LEARNING ACTIVITIES

SUMMARY

Based on the primary purpose of life insurance, anyone who has others financially dependent upon him/her has a need for the protection element of life insurance, unless of course, the individual has substantial savings and investments.

FAMILY'S PRINCIPAL WAGE EARNER -- The person on whom the family is dependent for income should be insured, and perhaps for large amounts, especially if children are young, or if children or spouse are handicapped. Life insurance should be concentrated on the principal wage earner, and other family members insured only if the principal wage earner is adequately insured.

SPOUSE -- If the spouse of the principal wage earner works and provides income which is necessary to the family's lifestyle, it makes sense to insure that individual. Some families with limited insurance dollars may have to make some hard decisions in this area though. Is the family equally dependent on both incomes? Or is one income greater than the other? Would one spouse be hurt more financially in the event of the other's death that the other spouse? Life insurance dollars should be spent to cover the greatest need.

HOMEMAKER -- Should a homemaker be insured? Few people would say that a homemaker's services do not have an economic value. If the surviving spouse would have to hire cleaning help, a cook and babysitter, it would probably be wise to have some insurance on the homemaker. However, insurance should be concentrated where the need is greatest. The principle wage earner should be adequately insured, and then, if insurance dollars are still available, the homemaker should be insured.

LEARNING ACTIVITIES

Assign a student to find out how much current estimates are of the cost of raising a child from birth to age 18, and to share the results with the class.

Explore with students how they feel about life insurance for single people. How many feel that future insurability is vital? How many would prefer to purchase insurance only when they need it? What are their reasons? How would their lack of need for insurance affect their choice of insurance? Would they buy term or whole life?

Provide students with case studies of families considering the purchase of life insurance. Ask students to identify who in the cases most needs life insurance.

SUMMARY

CHILDREN -- Contrary to the belief of many, it seldom makes sense to purchase insurance on children. While it sounds crass and unfeeling, children are an economic liability, not an asset. The cost of burying a child is very small in comparison to the cost of raising a child to age 18. The child has no one on whom others are economically dependent. An exception could be a child star whom the parents manage and who are dependent on the child for an income. And, often, insurance on the child is purchased at the expense of adequate insurance on the principal wage earner.

If the principal wage earner is adequately insured, an exception to the general rule may be children from a family with hereditary diseases -- insurance on the child to guarantee later insurability may then make sense.

SINGLE PEOPLE — Single people with no dependents may have no need for the protection element of life insurance. If no one would be financially hurt by their death, their need for insurance protection might be limited to burial expenses, final illness and current debts. They may have savings which would cover some or all of these expenses. The remaining question would be whether or not single people should purchase insurance to guarantee their insurability in case they have families, dependents, or other insurance needs later on. Some experts say it is a good idea and encourage single people, especially young single people, to purchase life insurance. Others say 'never buy insurance unless or until you need it.' An individual's attitude toward future financial security might determine the answer to this question of future insurability. The one argument that definitely does not hold up is that of "buy it now while it's cheap." Granted, if you buy whole life at an early age, the premiums will be smaller but the total cost will be substantially the same or perhaps even greater because of the greater number of years the premium will be paid.

Widows, widowers, divorced people and single people supporting elderly parents or handicapped brothers and sisters may have a need for a great deal of insurance protection.

LEARNING ACTIVITIES

Refer students to pages 23 and 24 of the Life Insurance Learning Activity Package by Primavera. Have them identify who in the examples should be insured.

SUMMARY

A possible caution: some single people have purchased very expensive life insurance plans for the savings element because they have no current need for the protection element. In the future when they do need insurance protection, they find themselves with a high insurance premium and a small amount of insurance coverage. Their alternatives then are to purchase more insurance at the expense of other family goals, cash in the expensive policy at some loss, convert to a lower cost policy if the policy permits such conversion, or remain underinsured and hope nothing happens.

HOW MUCH LIFE INSURANCE?

OBJECTIVE: Given selected case studies, the student will identify the varying degrees of need for life insurance protection.

KEY IDEA: To some extent, the amount of insurance protection needed is a subjective decision and depends on an individual's or family's income, lifestyle, and goals. Some guidelines do exist for determining a suitable amount, and students should be encouraged to use these in planning their life insurance programs.

LEARNING ACTIVITIES

Using the Changing Times "How Much Life Insurance Do You Need" mini-unit, explore with students how much insurance the case studies cited need.

Ask students in your class who are married or planning to marry if you can use them as a "case study." If they are willing, ask the class to sort out how much life insurance, if any, might be appropriate for them.

SUMMARY

Either one of two approaches can be used to determine the amount of life insurance needed. One is called the human life value approach. It looks at an individual's potential net earnings from today until retirement age and then discounts them to discover their present value. For example, assume that an individual's net income today is $20,000 and that that income would continue for 30 years. The amount of money needed today to provide 30 years income of $20,000 assuming an interest rate of 5% is $307,440. Some problems with the human life value approach are obvious in this oversimplified example. First, most people's income goes up over time rather than remaining the same. How should that be entered into the problem? Taxes also change, so the net amount of income would vary. How does one predict future tax changes? What rate of discount should be used? Is 5% too high or too low for 30 years from now. Also, salaries are received every week or month, not every year. Should that be entered into the calculation?

For young people, the amount of insurance required comes out rather high under this approach, and may have no bearing on actual insurance needs. Thus instead of the human life value approach, the human needs approach is often used. How much money would be needed by a family which lost a wage earner, and how much of this money would not be available from other sources, and therefore would need to be provided by life insurance? The worksheet on page 32, and the following explanation of that worksheet, is based on the human needs approach.

LEARNING ACTIVITIES

If students have not already done so, have them explore burial costs in their community.

Explore with the students: What would be the advantage of paying off the mortgage immediately? What would be the advantage of keeping the mortgage and making the monthly payments? Is it likely that a family might want to move after the death of the father or mother?

If you can find a widow who is willing to share her experiences with the class, invite her to speak about the financial problems a widow faces during the first year after the death of her spouse. Or, invite someone who has worked with widows' groups -- a minister, a funeral director, someone from a women's center.

A number of concepts discussed here and in the following pages relate to the "time value" of money, that is, money invested in savings accounts, bonds, and stocks earns income in the form of interest or dividends. Because of this "time value" of money, if you need $1000 in ten years, the amount you have to set aside today is not $1000, but a smaller sum depending on what rate of return you think you can get over the next 10 years. If you assume that you can get 5% a year for the next 10 years, you would multiply $1000 by the factor .6139 (see Table III, p. 34) to find that you

SUMMARY

FINAL EXPENSES -- The category of final expenses usually includes funeral expenses, bills, and estate settlement including probate and taxes. Some sources also include final medical bills, but that will depend on how comprehensive an health insurance plan an individual has. A good group health insurance plan will minimize final medical bills. Funeral expenses can vary from as little as $200 to as much as $5,000 depending on the family's desires. Under 'bills' comes all consumer debt such as the installment payments for the car and furniture and appliances, etc. Whether the mortgage comes under the heading of bills depends on the family. Some families want it paid off and would include it here; others would continue making the payments and include the amount in the family income category below. Estate settlement expenses can vary greatly depending on how people own their property and on whether they have an estate large enough to be subject to the federal estate tax.

The amount of final expenses is totaled, and since the entire amount will be needed within a year after death, the entire face value is included in the amount of money needed.

FAMILY READJUSTMENT EXPENSES -- Many families will need additional money after the death of a wage earner in making adjustments to the loss of that individual. Probably the biggest need in this category is that of income for a spouse who plans to return to work but needs time to find a suitable job. One year's income is sometimes suggested for this fund to give the family time to readjust. This amount seems appropriate since grief research indicates that it takes many people a minimum of one year to begin to recover from the loss of a spouse. To force a surviving spouse to make job and financial decisions during this period is not always wise. The amount of money needed for this fund will depend on whether the spouse is already working as well as the family's attitude toward the need for this fund. Again, since the money will be needed within one year after death, the amount is not discounted, but the entire amount decided upon entered into the total need.

FAMILY INCOME -- How much will the family need to live on after a wage earner dies? Some experts suggest that the family will need only 65 to 80% of what was needed before the death because of the expenses attributed to the deceased. Therefore, if the family needs $10,000 net to live on now, perhaps $8,000 would be sufficient after the death of the wage earner.

LEARNING ACTIVITIES

need to set aside only $613.90 today, to have $1000 in 10 years. To help your students become familiar with this idea, assign sample problems using the discount factors from Table II and Table III.

Show the free filmstrip from the Social Security Administration to provide students with an introduction to the coverages they have under Social Security.

Invite someone from the Social Security Office to speak to your class about the benefits available to young families. If speakers are not available, write for current information on benefits for young families.

How much can a person earn and still receive social security benefits this year?

The social security system is receiving some publicity over funding difficulties. You might wish to explore with students the effect that a severe reduction in benefits might have on their insurance needs.

Discuss with the class:
If a person has been out of the work force for many years, or has few job skills, is it likely that it will be easy to get a job? Will it be worth while for a person to

SUMMARY

From the amount decided upon as necessary, subtract the amount of social security that the family would receive. Young families sometimes are unaware of the fact that social security offers them a great deal of protection. If a covered worker dies (not all workers are covered by social security), his or her children are entitled to a benefit until 18, or until 22 if they are full-time students. The children are entitled to this benefit regardless of how much the surviving spouse earns. The only way the children's benefit would be reduced is if the children earn more than a designated sum each year (over $3,000 in 1977). Unearned income -- income from investments, savings accounts, etc. will not reduce their benefits no matter how much they receive. In addition to the child's benefit, the surviving spouse taking care of the child also receives a benefit as long as he or she does not earn more than the designated sum. Social security benefits change each year since an escalator clause has been inserted in the law. And benefits for a given individual will depend upon how much the individual earned, and how many years have been paid in. Not everyone will qualify for the maximum benefits. The social security office is very helpful in providing this information.

In addition to social security, subtract from the amount that the family will need, the amount that a working spouse contributes, or if it is assumed that a non-working spouse will return to work, the amount that can be anticipated once suitable work can be found. The amount arrived at after this calculation is the additional amount that the family will need as family income.

The family will have to determine for how many years this amount will be needed, usually until the youngest child turns 18 or 22. Then, since this amount is not needed immediately but part this year, and part perhaps 12 years from now, the family must discount it to determine its "present value." To do so, the family must decide what rate of interest they feel can be earned on the money for a long period of time. To be on the safe side, or to offset the effects of inflation (which have not been worked into the calculations presented here), some families use a very conservative estimated return such as 4%. Others might use 5 or 6%. Say the family's youngest child is 8 years old, and the family wishes $1,500 additional income each year until the child reaches age 21. Needing $1,500

LEARNING ACTIVITIES

give up social security benefits for a low salary? Would it be better for such a mother or father to stay home with the children?

For class discussion: Should parents plan to pay for their children's college education, or should the children plan to pay most of the way themselves? Do your students feel that a college education for children is an insurance priority?

Note to the teacher: Some of the mathematical calculations here may be too sophisticated for your students. The how-to is presented here for your information. You will have to decide, based on your experience with your students, whether to present the information as it is presented here, or in a less complicated fashion. Worksheet 2 is a simplified version of this process. A brief explanation is included at the bottom of that worksheet.

SUMMARY

income for 13 years, and deciding on a 5% interest rate, they check table 2 for the discount factor for money needed for a series of years in the future, and find that a factor of 9.394 multiplied times $1,500 gives them a figure of $14,091. This figure is the amount of insurance needed and which if invested at 5% will provide $1,500 in income each year for 13 years.

EDUCATION FUND -- Providing a college education for their children is a priority for many families, a priority which they wish to cover with life insurance. If they estimate that the total cost will be $20,000 by the time their child reaches college, they need to estimate the amount of money needed now to grow to $20,000 by that future date. Assume that the child will not be going to college for another 10 years. Using a 6% interest rate (because that is the amount currently available on Series E savings bonds) they find they can apply a discount factor of .5584 (see Table 3) to the $20,000. The amount of insurance needed today to grow to the amount needed later is $11,168 (actually since the entire amount is not needed the first year of college, they could discount this for each of four years and find the amount is even smaller).

BLACKOUT PERIOD -- Once the children leave home, the surviving spouse experiences a "blackout" period -- a time between the last child leaving home and before being eligible for social security when no social security benefits will be received. For example, if the widow above finds her youngest child leaving home when she is 45, there is a 15-year gap before social security will resume benefits to the widow. If the widow is working or plans to return to the work force after the children leave home, perhaps no money is needed in this category. However, if the widow does not wish to return to work, a very large amount may be needed. Suppose the family estimates that by that time the widow will need $7,000 a year in addition to income from other sources to live comfortably. Discounted for 15 years at 5% the amount needed is $72,660 (see Table 2: 7,000 x 10.380) but since this will not be needed for another 13 years, it can be further discounted (again at 5% -- see Table 3 -- .5303 x $72,660) and the amount of extra insurance needed now would be $38,531.

LEARNING ACTIVIES

There are differences of opinion as to how inflation should be entered into calculations especially for family income. Some would accept the outline presented here as satisfactory since social security benefits are now automatically adjusted for inflation. Consumers Union suggests that if you anticipate inflation to increase each year at the same rate as the return on your investments, that you not discount future years income at all. It provides other factors in its Report on Life Insurance depending on whether you believe that inflation will increase or decrease more than your anticipated rate of return. How do your students feel about allowing for inflation?

SUMMARY

RETIREMENT FUND -- In addition to all of the above, many families wish to provide extra income for retirement for the surviving spouse on the understanding that social security is not adequate for a comfortable retirement. For very young people, this is very difficult to estimate, and some may not even wish to try, especially if their insurance needs are already great. For middle aged people, however, retirement is a little closer, and with other responsibilities out of the way, they may wish to estimate an amount for this fund. If a figure can be decided upon, the discounting process can be used to determine the insurance needed as in the blackout period above.

BUSINESS NEEDS -- Family businesses, partnerships, and corporations may have very definite insurance needs. This, however, is a complex subject, and accountants, lawyers, and insurance professionals (preferably CLU's) should be consulted.

After adding the total amounts needed, there should be subtracted any cash or investments which are readily available and liquid. Once this is done the family or individual has a rough idea of how much life insurance is necessary.

This outline is just a rough estimate. Other sources have put together much more elaborate methods of determining insurance needs for those who wish to be quite precise. These sources are readily available in libraries. Also, insurance companies have computers programmed to do the work for prospective insurance purchasers. One might suspect that the figures would come out a little high from such a source, but perhaps that is for the best since many consumers have a habit of underestimating their insurance needs.

A second worksheet is also provided here. It is a simplified version of Worksheet 1, and may be less confusing to students.

Worksheet 1

32

HOW MUCH LIFE INSURANCE?

Total Amount of Insurance needed Today

Final Expenses

Debts.....
Mortgage (if family wishes it paid off).....
Medical Expenses.....
Funeral Expenses.....
Estate Settlement.....

Total Final Expenses..... .....

Family Readjustment Expense ....

Family Income Needed (per year)

65 to 80% of Deceased Wage Earner's Take-Home Pay.....
Minus Social Security.....
Minus Surviving Spouse's Take-Home Pay.....

Total Family Income Needed Per Year ..... X _____ (Discount Factor for Money Needed for a Series of Years in the Future, Table 2)... =

Education Fund ..... X _____ (Discount Factor for a Sum of Money Needed in the Future, Table 3)..... =

Blackout Period (amount needed per yr) _____ X _____ (Discount Factor for Money Needed for a Series of Years in the Future, Table 2) = _____ X _____ (Discount Factor for a Sum of Money Needed in the Future, Table 3)..... =

Widow or Widower's Retirement Fund (Amount needed per year) _____ (Repeat calculation for Blackout Period)..... =

Business Uses ....

SUBTOTAL.....

Subtract

57 Other Cash Assets Currently Owned _____
Value of Present Insurance (including group insurance)

-

TOTAL INSURANCE REQUIRED.....

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HOW MUCH LIFE INSURANCE (SIMPLIFIED)

Final Expenses — Total Amount of Insurance Needed Today

Debts....._____
Mortgage (if family wishes it paid off)....._____
Medical Expenses....._____
Funeral Expenses....._____
Estate Settlement....._____
Total Final Expenses....._____ ....._____

Family Readjustment Expense....._____ ....._____

Family Income Needed (per year)

65 to 80% of Deceased Wage Earner's Take-Home Pay....._____
Minus Social Security....._____
Minus Surviving Spouse's Take-Home Pay....._____

Total Family Income Needed Per Year _____ Divided by the Interest Rate which you wish to assume the money will earn = _____

Subtract

Other Cash Assets Currently Owned .._____
Value of Present Insurance (including group insurance)....._____

_____ ....._____

TOTAL INSURANCE REQUIRED....._____

This simplified worksheet eliminates much of the confusing math in Worksheet 1. While not as precise, it provides a fair estimate of insurance needs for young people. Dividing the family income needed per year by the interest rate which it is assumed that the money can be invested at, yields the amount of money needed today to pay the indicated interest to provide family income. For example, if the family needs $3,000 per year in additional family income, and if they assume that money can be safely invested at 5%, then $60,000 is necessary to provide $3,000 interest per year at 5%. The categories titled "education fund," "blackout period," "widow or widower's retirement fund," and "business uses" from Worksheet 1 are not included here. However, after the family income is no longer needed, the $60,000 will still remain. It can be used to provide for these four categories. The individual family would have to decide if this sum would be adequate for these purposes or if additional insurance should be purchased.

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TABLE II

DISCOUNT FACTORS FOR MONEY NEEDED FOR A SERIES OF YEARS IN THE FUTURE

How much money would you have to put into an account today, assuming that the account paid 5% compounded annually, to have the account pay $2,000 at the end of every year for the next 20 years?

$2,000 x 12.462 = $24,924

YEARS	4%	5%	6%
1	.962	.952	.943
2	1.886	1.859	1.833
3	2.775	2.723	2.673
4	3.630	3.546	3.465
5	4.452	4.329	4.212
6	5.242	5.076	4.917
7	6.002	5.786	5.582
8	6.733	6.463	6.210
9	7.435	7.108	6.802
10	8.111	7.722	7.360
11	8.760	8.306	7887
12	9.385	8.863	8.384
13	9.986	9.394	8853
14	10.563	9.899	9.295
15	11.118	10.380	9.712
16	11.652	10.838	10.106
17	12.166	11.274	10.477
18	12.659	11.690	10828
19	13.134	12.085	11.158
20	13.590	12.462	11.470
21	14.029	12.821	11.764
22	14.451	13.163	12.042
23	14.857	13.489	12.303
24	15247	13.799	12.550
25	15622	14.094	12783
26	15.983	14.375	13.003
27	16330	14.643	13.211
28	16.663	14.898	13.406
29	16.984	15.141	13.591
30	17.292	15.372	13.765
31	17588	15.593	13.929
32	17.874	15.803	14.084
33	18.148	16.003	14.230
34	18.411	16.193	14368
35	18.665	16374	14498
36	18908	16.547	14621
37	19.143	16.711	14737
38	19.368	16.868	14.846
39	19.584	17.017	14.949
40	19793	17.159	15.046

TABLE III

DISCOUNT FACTORS FOR A SUM OF MONEY NEEDED IN THE FUTURE

How much money would you have to put into an account today, assuming that the account paid 5% interest, compounded annually, to have the sum grow to $20,000 in 20 years?

$20,000 x .3769 = $7538

YEARS	4%	5%	6%
1	.9615	.9524	.9434
2	.9246	.9070	.8900
3	.8890	.8638	.8896
4	.8548	.8227	.7921
5	8219	.7835	.7473
6	.7903	.7462	.7050
7	.7599	.7107	.6651
8	.7307	.6768	.6274
9	.7026	.6446	.5919
10	.6756	.6139	.5584
11	.6496	.5847	.5268
12	.6246	.5568	.4970
13	.6006	.5303	.4688
14	.5775	.5051	.4423
15	5553	.4810	.4173
16	.5339	.4581	.3936
17	.5134	.4363	.3714
18	.4936	.4155	.3503
19	.4746	.3957	.3305
20	.4564	.3769	.3118
21	.4388	.3589	2942
22	.4220	.3418	.2775
23	.4057	.3256	.2618
24	.3901	3101	.2470
25	.3751	.2953	.2330
26	.3607	.2812	.2198
27	.3468	.2678	.2074
28	.3335	.2551	.1956
29	.3207	.2429	.1846
30	.3083	.2314	.1741
31	.2965	2204	.1643
32	.2851	.2099	.1550
33	.2741	.1999	.1462
34	.2636	.1904	.1379
35	.2534	.1813	.1301
36	.2437	.1727	.1227
37	.2343	.1644	.1158
38	.2253	.1566	.1092
39	.2166	.1492	.1031
40	.2083	.1420	.0972

TYPES OF LIFE INSURANCE

OBJECTIVE: The student will identify at least two characteristics of each of the following types of life insurance: group life insurance, industrial life insurance, and ordinary life insurance, level term, decreasing term, straight life, limited payment life, and endowment.

KEY IDEA: Insurance companies offer what sometimes appears to be a confusing and unlimited array of insurance policies. Actually a limited number of policy types are available. They are, however, offered with a number of variations to suit various needs. With a knowledge of basic policy types, the student will be better able to decide on the appropriate type of policy.

LEARNING ACTIVITIES

Do your students have any idea how much life insurance may be provided by an employer? You might consider going over the life insurance benefit offered to the employees of your school system. Is it a flat amount such as $5,000? Is it a percentage of salary such as 1½ times annual pay? Is it provided at no cost to the employee? Does the employee have to pay part of the cost? If the employee leaves the school system, what happens to the life insurance coverage?

Explore further with your students: what kinds of occupations are likely to have group insurance coverage? waitresses? mechanics? secretaries? short order cooks? baggers in a grocery store? factory workers? doctors? hospital employees? farmers?

SUMMARY

Life insurance business is usually classified into three broad categories: group life, industrial, and ordinary life insurance. The last of these, ordinary life is further subdivided by the type of insurance sold.

GROUP LIFE -- Must be member of a group to qualify
-- Usually no medical exam required
-- Often lower cost than an individually purchased policy
-- Usually term insurance
-- Coverage may end when you leave the group or, you may have the option of converting to a smaller face value amount of whole life insurance.

Many Americans are covered by low cost insurance or insurance provided free through their employer, union, or professional group. The insurance can be provided at a lower cost because most or all of the group is covered, the cost of medical exams is saved, and it is less expensive to process since only one master policy and only one bill is involved, with much of the paperwork done by the employer.

The major disadvantage to relying on group life insurance as a major part of an insurance program is that coverage may end when you leave the employer or the group. You may have the option of converting to a much smaller face value amount of whole life insurance within a certain period, usually 31 days, after you leave your group. However, this smaller amount may be inadequate for your needs, and you must exercise your option by applying and paying for the first period of coverage all within the 31 days (a critical period just when you are changing jobs).

LEARNING ACTIVITIES

Select a few students to interview the owners or personnel officers of some businesses in your community regarding life insurance for their employees. Provide them with a questionnaire asking the questions outlined above. Have students report the results to the class.

If an individual is self-employed or is an employee of a firm which does not provide life insurance benefits, can the individual find group life insurance elsewhere? Do farmers have any organizations which provide it? Unions? Clubs? Fraternal organizations?

See the article "Consumer Problems with Industrial Life Insurance" by James Young in the Journal of Consumer Affairs, Winter, 1976 for a summary of current problems with industrial life insurance. (See sources of additional information, p. 68.)

SUMMARY

Experts sometimes disagree as to whether or not a consumer should rely on group life insurance. Some suggest that since it is available, it would be imprudent not to rely on it. Others feel that since it may terminate, perhaps at an inopportune time, it should not be relied on too heavily. At the very least, if you are relying on group life insurance as a major portion of your insurance program, you should know what options are available if you leave the group. Then ask yourself: "What are the chances that I will leave this group? Do I plan to stay with this employer or this profession till retirement? Would termination of this insurance cause a severe hardship for my family if anything happened to me?"

A word of caution: Not all group life insurance is cheaper than individually purchased insurance. Some associations make life insurance available to their members as a side benefit. While the price may not be a bargain, the company may have agreed to accept all members without a medical exam, a benefit to those who are rated as substandard risks, or are unable to get insurance for medical reasons.

INDUSTRIAL -- Premiums collected weekly or monthly, usually at the policyholder's home.
-- Usually small face value policies (often under $1,000)
-- High cost
-- Cash values build slowly
-- High lapse rates

Industrial insurance got its name from the fact that is was, and is sold primarily to factory workers as well as other low income people. An agent collects the premiums on a frequest basis so that the policy holder will remember to pay the premiums and will have the amount necessary. The cost of the policy is high because of the agent's home service, and because rates for industrial policies are based on different mortality tables than for standard insurance. Medical exams are seldom required because of the small amounts of the policies. The policies are usually considered burial policies by those who purchase them, and are not intended to provide financial protection for dependents.

LEARNING ACTIVITIES

SUMMARY

Again, the poor pay more. They pay more because it is difficult for them to budget a sum large enough to make payments once a year. They pay more because they don't understand what life insurance is supposed to do, and because standard life insurance agents seldom look for prospects in low income areas. They pay more because they have high lapse rates. And finally, they pay more because the same premium dollars could purchase a great deal more protection for their families in lower cost term insurance elsewhere.

ORDINARY -- Ordinary life insurance is a term used to refer to insurance policies sold individually direct to consumers. The main types of ordinary life insurance are term, whole life, and endowment.

TERM -- Pays the face value death benefit if the insured dies during the term of the policy.
-- It is pure protection -- it has no cash surrender values.
-- The premiums are roughly 1/3 to 1/5 that of whole life policies purchased at the same age.
-- Premiums go up each time the policy is renewed.
-- Most policies are renewable, but usually cannot be renewed beyond age 65.

LEVEL TERM -- Face value remains the same for the entire term of the policy.
-- 1-year and 5-year terms are common; other time periods such as "level term to age 65" are also available.
-- Premiums remain the same each year during the term.
-- At the end of the term, if the policy is renewed, the premium will increase.

DECREASING TERM -- Premium remains the same each year, but the face amount of the policy decreases over the term of the policy.
-- 1, 5, 10, 20-year, or decreasing to age 65 are common.
-- Premium for the same amount of initial face value is lower than level term.
-- Can be "straight line" decreasing, or "mortgage" decreasing term.

LEARNING ACTIVITIES

SUMMARY

INCREASING TERM -- Premium remains the same each year, but the face value increases over the term of the policy.
-- Relatively uncommon type of policy.

Term insurance is pure protection. It does not build up any cash surrender values. It purely and simply promises to pay the face value -- the amount of insurance specified in the policy if the insured dies before the "term" or time period of the policy ends. Term insurance has the lowest premiums of all policy types, and therefore can provide the most financial protection. It is the insurance of choice for those who have a limited number of insurance dollars but a need for a large amount of protection.

Several types of term insurance are available to meet different insurance needs. Level term provides a specified amount of insurance for the entire term of the policy. For example, a 5-year term policy with a face value of $25,000 would pay a death benefit of $25,000 anytime during the 5 years of the policy, provided that the annual premiums were paid. The chart on page 49 shows that 5-year renewable and convertible level term would cost $100.75 a year for a person age 20. The premium remains the same each year for the entire five years. If at age 25, the insured decides to renew the policy, the premium will go up to whatever the company is charging at that time for that type of policy for 25-year olds. Again page 49 indicates that at the present time, the premium would go up to $102 a year for the next five years. Notice that the premiums rise rather slowly until ages 40 and 45 when the mortality tables indicate that the death rate increases substantially.

The policy just quoted was mentioned as renewable and convertible. That the policy be "renewable" is vital to anyone whose insurance program is based on level term insurance. It guarantees the insured the right to continue the policy if desired in spite of any changes in health which might make him/her uninsurable elsewhere. Term insurance usually cannot be renewed beyond age 65. Some people see this as a disadvantage. However, many people drop their insurance at retirement anyway because most, if not all, of their need for protection has ended. "Convertible" means that the insured can change the policy from term insurance to the same

LEARNING ACTIVITIES

SUMMARY

face amount of whole life insurance if desired. The insured will then pay premiums at the rate for whole life insurance at his/her age at the conversion.

With decreasing term insurance, the premium remains the same each year but the amount that will be paid as a death benefit goes down each year. For example, 20-year decreasing term policy with an initial face amount of $25,000 could have a premium of $64.25 a year (see page 48) every year for twenty years, but the amount of death benefit would go down each year until the final two years when the death benefit would remain at $5,000. The premium for decreasing term is less than that for level term of the same initial face amount because the amount of insurance provided reduces with time.

"Straight line" decreasing term means that the face amount reduces by a pre-determined percentage or amount each year. A 10-year policy might reduce by an even 10% each year until the last two years during which it is common to continue the insurance for at least 20% of the initial face amount. "Mortgage" term is more familiar to consumers. It reduces at approximately the same rate as a mortgage would reduce — that is, very slowly in the early years of the mortgage, and more rapidly in the later years. Mortgage term can be purchased to match the interest rate on your home mortgage. Some lenders require mortgage life insurance but they cannot require that it be purchased from the lender. Home buyers can shop around for lower cost mortgage insurance elsewhere. It might be noted here that it is not necessary to have a mortgage to buy mortgage term insurance. A consumer who wants decreasing term insurance that decreases at a slower rate than does straight line can purchase mortgage term.

Decreasing term insurance is advantageous for those who see their insurance needs as very great at the present but growing smaller as the years go by. A family with young children might perceive their needs as very great now but growing smaller as the children grow older. (However, families intending to pay for their children's education may see their insurance need growing as children get older.) Decreasing term might be used to cover some kinds of consumer debt. Which brings us to credit

LEARNING ACTIVITIES

SUMMARY

life insurance. Credit life insurance is a form of decreasing term insurance, usually sold by the lender, which is designed to pay off your debt if you die before paying the debt in full. The insurance is usually optional — you can refuse if you wish. (If the credit life is mandatory, the creditor has to include its cost in the finance charge and quote you a higher interest rate.) Since it is an expensive form of life insurance, it is often recommended that the consumer use those insurance dollars to purchase conventional term insurance to cover the loan, or that the consumer include outstanding debts when determining the needed insurance coverage in planning a total insurance program. However, some uninsurable individuals may find this insurance cheap at any price because a medical exam is not usually required. Many consumers still find that they are encouraged to purchase the credit life insurance by the lender. The lender, and/or sometimes the salesperson, earn a commission for selling it.

A rarer form of insurance is called "increasing term" insurance. Usually found as a rider to another policy, it promises to pay an increasing amount each year until the last year of the policy. The rationale is that with inflation, a family will need more money each year. In some policies it is called a "return of premium" benefit, so that if the insured dies before a certain time, the beneficiary will receive the face amount of the policy plus all premiums paid up to that point. In reality, it is increasing term insurance added to the policy, and the policyholder will pay extra for it.

WHOLE LIFE -- Pays the face amount as a death benefit at the death of the insured — no time limitation.
- -- Builds cash surrender values which the owner may claim if the owner cancels the policy.
- -- The policyholder can borrow the cash surrender value at an interest rate stated in the policy.
- -- Policy usually matures at age 90, 95 or 100. If the insured survives to that age, the face amount will be paid to the policyholder.
- -- Usually requires medical exam.
- -- Is available as continuous premium and limited payment.

LEARNING ACTIVITIES

SUMMARY

CONTINUOUS PREMIUM
WHOLE LIFE -- Premiums will remain the same for the insured's entire lifetime.
-- Premiums are roughly 3 times higher than term insurance purchased at the same age.
-- Policyholder may continue paying premiums to age 90, 95 or 100 -- whichever age is specified in the policy.

LIMITED PAYMENT
WHOLE LIFE -- A lifetime policy will be paid up in a specified number of years such as 10-year limited payment life, 20-year, paid up at 65, etc.
-- Premiums remain the same during the payment period.
-- Premiums are even higher than for whole life because an entire lifetime's payments are condensed into a smaller period.

Whole life insurance covers an individual for his/her whole life. The difference in policy types is based on how they are paid. With continuous premium whole life, premiums continue for the insured's entire lifetime (the company is obligated to honor the contract as long as the policyholder pays the premiums; however, the policyholder can end the contract at any time desired). With limited payment life, the insurance continues for the insured's entire life, but the premiums for that insurance are paid for in a shorter period of time, such as 10 or 20 years, or paid up at age 65. The premiums for continuous premium whole life remain the same for the insured's entire life time, and are based on the insured's age at the time the policy is purchased. For example, the chart on page 48 shows a premium for non-participating whole life at age 20 of $245.25. The policyholder can pay this amount each year until the policy matures at age 90, 95, or 100, or can forfeit the policy at any time and take one of several surrender options available. If the same 20-year old were to purchase 20-pay life, the premiums would be $412.75 a year for 20 years, and after that the policy would be paid up for the insured's lifetime. No more premiums would have to be paid, but if the insured died, the beneficiary would receive $25,000.

LEARNING ACTIVITIES

SUMMARY

Once a limited payment life insurance policy is paid up, the cash value continues to grow, and the insured can borrow on it as in a continuous premium policy. The ultimate in limited payment life is a single premium policy. One premium pays up the policy for the insured's life.

The pricing structure of whole life is designed to keep premiums at an affordable level for the insured's entire lifetime. At young ages the actual cost of protection is very low because the number of people in the insurance pool is large and the death rate among them is very low. At older ages the pool becomes smaller, and the death rate higher, so the actual cost for protection becomes greater. Premiums for $25,000 of insurance after age 65 at one company that offers it are $795.75 at age 65, $1,233.50 at age 70, $1,806 at age 75, $2,694.50 at 80, $3,936.25 at age 85. Continuous premium whole life keeps the premium even by charging more than is necessary for pure protection in the early years so that the premiums will not have to be increased in the later years.

During the 1800's whole life turned out to be no bargain for people who dropped it before actually dying -- the overcharge was not returned to them. Insurance regulators felt that insurance companies were making unconscionable profits and therefore eventually required that if a whole life policy were forfeited, the policyholder be given some options regarding the overcharge. Thus "non-forfeiture" options came into being. The best known of these is the "cash surrender value." The insured's policy states that if the policy is forfeited, the policyholder can receive the cash surrender value listed in the policy, or can take a number of other non-forfeiture options (see page 65 for a further discussion of these options). Usually a policy has no cash surrender value in the first year, and very little, relative to the premiums paid, in the second year. This reflects the cost of the salesperson's commission and the expenses of underwriting and placing the policy. If purchased before age 40, the cash surrender value of a policy at age 65 will usually be slightly more than half of the face amount of the policy.

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The cash surrender value is not the same as a savings account — it cannot be taken out at will without consequences as can savings. If the entire cash surrender value is taken out, the policy ends and there is no more insurance coverage. The cash surrender value can be borrowed at an interest rate stated in the policy, but if the insured dies before the loan is repaid, the amount of insurance paid is reduced. For example, a policyholder borrows $3,000 of the cash surrender value on a $25,000 policy. In the event of death before repayment of the loan, the beneficiary will receive only $22,000. The interest rate on policy loans has been very low in past years -- people holding older policies have rates varying from 4 to 6%. Insurance companies are lobbying for higher maximum rates, however, and in some states can now issue policies with a rate of 7 or 8%. The rate stated in your policy is the rate at which you will be able to borrow as long as you hold the policy. There are no time limitations on repayment, so a loan never has to be repaid as long as the interest payments are met either by direct payments, or additional policy loans against the cash surrender value of the policy.

Beneficiaries do not receive cash value plus the death benefit on whole life policies -- they receive only the face amount of the policy less any indebtedness. Thus if three 20-year olds each buy $25,000 of life insurance, and one buys term, one buys continuous premium whole life, and another buys a 20-pay whole life, and all three die at age 25, one would have paid $458.75 in premiums, another $1,226.25, and another $2,063.75, but each company will be obligated to pay only $25,000 to the beneficiary.

Some critics of whole life insurance believe that whole life is a poor buy because the policy holder is paying now for insurance that may never be needed. The 20-year old in the example above paid $2,063.75 for a 20-pay limited payment policy. When he/she died at age 25, he/she had paid over $1500 for future years coverage which now will never be used. These critics believe that insurance should be purchased as it is used in the form of term insurance. The average individual, they feel, often has little need for insurance after the ages of 55 to 65, and that prepaying for insurance into the 80's may not make sense. The primary

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need for life insurance is to replace the income of a wage earner who has not had time to save money to protect dependents. In mid- to later life, the wage earner will hopefully have had time to save some money, and some dependents will no longer need support, and then the insurance protection is no longer required.

Defenders of whole life argue that whole life insurance isn't just death protection but also savings for retirement. They point to people who have not been able to save money during their lifetimes because of inflation, illness, children, etc., and indicate that without a forced savings plan they would face retirement without any extra income. Therefore, they say, a 20-year old's decision to buy the more expensive whole life or limited payment life makes sense in a lifetime context. (See page 54 for a further discussion on this matter.)

ENDOWMENT -- Cash value equals face amount at end of the payment period.
-- Payments remain equal during the payment period.
-- Large savings element, small protection element.
-- Premiums much higher than whole life rates.

With endowment policies the emphasis is on savings. The premiums are relatively high because at the end of the payment period, the insurance company will pay the face amount of the policy to the insured. Live or die, the company pays. Many insurance experts agree that because of the emphasis on savings in this type of policy, that it makes sense in very few insurance programs. Sometimes it is sold as a way of saving for a child's college education. Besides the fact that there are better ways to save for that purpose, experts feel that this is a grave mistake in situations where the wage earner is underinsured.

We have reviewed in brief the major types of insurance policies. They can also be put together in a variety of combinations to create specialty policies. Some of the more common are:

FAMILY POLICY -- Covers all members of the family in one contract. Typically $5,000 in whole life on the wage earner, $1,000 in term to age 65

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SUMMARY

on the spouse, and $1,000 term to age 21 on each child. Potential problem with this policy: coverage for dependents isn't essential and the wage earner may be underinsured.

FAMILY INCOME POLICY -- A combination of whole life and decreasing term insurance which, in addition to the face death benefit, pays a pre-determined income to the beneficiary until a specified time. Thus the policy could state that the beneficiary would be entitled to $25,000, plus monthly payments of $120 until August, 1995. If the insured lives until August 1995, the decreasing term portion of the policy -- the monthly payment -- ceases, and only the face amount death benefit is paid.

FAMILY MAINTENANCE POLICY -- A combination of whole life and level term which, in addition to the face death benefit, promises to pay a monthly income for a certain number of years beginning with the death of the insured. A policy could pay $25,000 as a face death benefit, and also pay $120 a month for 20 years beginning with the death of the insured.

MODIFIED WHOLE LIFE -- Premiums for the first five to ten years are quite low, and then increase. Some companies' policies amount to term insurance in the early years, and then whole life later on. The cash surrender value builds very slowly. It is designed for the person who would like whole life, but cannot afford it in the early earning years. An individual could achieve the same effect by buying convertible term insurance, and converting it when it can be afforded.

RETIREMENT INCOME POLICY -- This is a policy in which the cash value in the later years exceeds the face value of the policy. If the insured dies and the cash value is greater than the face amount of the policy, the cash value will be paid to the beneficiary. The purpose in generating such a large cash value is to build up a fund to provide retirement income. Once the cash value exceeds the face amount, there is actually no insurance protection left, only savings.

LEARNING ACTIVITIES

See the article "Campus Life Insurance - At Best a Delusion, At Worst a Snare" in the March 1977 issue of Consumer Reports for a discussion of the merits of a financed insurance plan sold to students. Ask one of your students to read the report and summarize its findings for the class.

Make a transparency of the sample premiums for $25,000 Life Insurance on page 48. After a discussion of the different types of life insurance, show it to students. Ask them to recall from memory some of the distinguishing characteristics of each type of policy. Looking at the premiums, ask students what kind of situation they think each policy might be suited for.

SUMMARY

FINANCED INSURANCE -- College students are frequently solicited for a high priced insurance plan in which the student is told that it is necessary to make only a small token payment, and then it will not be necessary to make any more payments until after graduation. What the student may not understand is that he/she has signed a note financing the premium for the first year or two, and that note cannot be reneged on. The finance company will demand payment after graduation. In addition to entering a contract which he/she does not understand and cannot get out of, the student has purchased a high priced form of life insurance which he/she probably does not need anyway.

More specialty policies have appeared in recent years. The object is to provide policies suited to special needs, but the result is often confusion for the consumer. For an analysis of the merits of variable life insurance policies, deposit term, minimum deposit term, cost of living insurance, and economatic policies, see the chapter "The More Complicated Policies" in the Consumers Union Report on Life Insurance.

All of the above types of policies are available as both participating and non-participating policies, although not all companies offer both types. A non-participating policy is also called a "guaranteed cost" policy, meaning that the premium will remain the same for the entire policy life. Non-participating premiums are generally lower than those for participating policies. But a participating policy gives the policyholder an opportunity to share in the company's good fortune -- if the company does well, it returns part of the premium as a "dividend" to the policyholder. Technically and legally the dividend is considered a return of premium, or an overchange of premium. Non-participating policies do not generate dividends.

Is a participating or a non-participating policy better? The premiums for the participating policy will probably be higher. Will the dividends that the policy earns make up for the difference? Some authors suggest no, and they further advise that no one should ever give the

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company one cent more than necessary to pay for the coverage needed. Another author suggests that, historically, participating policies have done well for their owners, at least at the companies willing to share their good fortune with policyholders. It seems that some companies even though they have had the favorable loss experience of other companies, and also have done business in an era of high interest rates, have not paid dividends greater than what they illustrated 20 years ago. So, depending on what company you insure with, participating policies may be worth the extra premium.

TABLE IV

SAMPLE PREMIUMS FOR $25,000 LIFE INSURANCE

	AGE			
	20	30	40	50
1 year Level Term (1-a) non-participating	77.25	82.00	110.75	227.00
5 year Level Term (1-b) non-participating	91.75	93.25	133.00	275.50
10 year Level Term (1-c) non-participating	98.75	118.75	202.75	437.50
Level Term to 65 (2) non-participating	147.75	185.75	262.50	393.25
10 year Decreasing Term (2 & 3) non-participating	61.75	68.75	111.50	223.25
20 year Decreasing Term (2 & 3) non-participating	64.25	72.75	123.00	252.50
30 year Decreasing Term (2 & 3) non-participating	68.75	85.25	162.00	349.25
Decreasing Term to 65 (2 & 3) non-participating	81.25	98.75	140.00	226.00
Whole Life, non-participating	245.25	344.50	512.50	799.50
Whole Life, participating	356.25	486.25	695.50	1031.25
20 Pay Life, non-participating	412.75	525.75	704.75	975.50
20 Pay Life, participating	581.25	727.50	916.25	1178.75
20 year Endowment, non-participating	990.50	996.50	1055.50	1195.25
20 year Endowment, participating	1140.25	1166.75	1225.50	1356.50

1. *Renewable and Convertible*
2. *Convertible*
3. *Death Benefit $25,000 in first year, reducing to $5,000 in final 2 years.*

a. *Not always easy to find in amounts smaller than $50,000 or $100,00*
b. *Very common, offered by a wide range of companies*
c. *Not widely available; often is convertible but not renewable*

These are sample premiums only. Some companies sell the same policies at a higher premium and some at a lower premium. The premiums cited are for males. Most companies would use the same premiums for women three years older. Smaller policies would be slightly more expensive per $1,000, and larger policies would be slightly less expensive per $1,000.

TABLE V

SAMPLE PREMIUMS FOR $25,000 LIFE INSURANCE AT DIFFERENT AGES

Age	5 yr. Renewable & Convertible Level Term	Non-Participating Whole Life	Participating Whole Life
20	100.75	262.25	391.50
25	102.00	301.75	442.50
30	103.25	349.00	506.75
35	107.25	410.25	588.75
40	139.75	497.75	694.75
45	198.25	611.75	832.00
50	303.00	768.50	1011.25
55	463.75	975.75	1248.25
60	757.00	1254.50	1566.50
65	n/a*	1630.25	1997.00
70	n/a*	2133.50	2576.75

*Only a few companies offer term insurance past age 65, although one company offers it to age 100.

These are sample premiums only. Some companies sell the same policies at a higher premium and some at a lower premium. The premium cited are for males. Most companies would use the same premiums for women three years older. Smaller policies would be slightly more expensive per $1,000, and larger policies would be slightly less expensive per $1,000.

CHOOSING THE TYPE OF POLICY

OBJECTIVE: Given case studies, the student will select a type of life insurance or mix of types appropriate to the case study and provide a rationale for the selection.

KEY IDEA: Life insurance policies are either pure protection or a combination of protection and savings. Some people may be grossly underinsured because they have chosen protection and savings, a more expensive type of policy than is really necessary. Ideally, an individual should determine the amount of insurance needed and buy this amount! If the individual can afford this amount of life insurance in a policy that combines pure protection with a savings account, then the advantages and disadvantages of saving in this manner should be considered.

LEARNING ACTIVITIES

Discuss with the class the meaning of the following: "Did you ever hear anyone at a funeral ask, "I wonder how much cash surrender value he had?"

Going back to Objective 5, review with students which of the insurance needs listed could be considered "permanent." Can they think of any reasons for buying "permanent" insurance even if there is no present permanent need?

SUMMARY

Insurance salespeople and consumer writers appear to be at odds regarding which type of policy is best for the consumer. Insurance salespeople tend to recommend whole life insurance policies, while consumer writers sometimes suggest that whole life never makes sense, that only term insurance should be purchased. In reality, the answer is "it depends . . ." It depends on the individual's ability to save, on the individual's tax bracket, on the amount of risk that an individual is willing to take on investments, on how much the individual feels could be made on other tax deferred investments, on how long the individual expects to need insurance, on how much the individual values the options available in a whole life contract, as well as a variety of other factors.

However, it cannot be repeated often enough: Before these factors are considered at all, the individual should consider whether or not the needed amount of insurance can be afforded. If the only way the individual can get the amount of insurance needed is through the lower cost term insurance, then term insurance should be purchased! Many families are surprised to learn that they can afford very large sums of protection if they buy term insurance.

Some of the pro's and con's of combining pure protection with a savings element are as follows:

WHOLE LIFE IS "PERMANENT" PROTECTION WHILE TERM IS "TEMPORARY" BECAUSE IT USUALLY ENDS AT 65 OR 70. Most insurance needs are "temporary,"

LEARNING ACTIVITIES

Ask the class for a reaction: "Most people don't save unless they are forced to." Do they believe it's true? Where could they find statistics on the amount of savings held by the average American? (Ask a local financial institution. The County Cooperative Extension Service budgeting program.) Does only money in savings accounts qualify? How about "E" bonds? Vested rights in a pension plan? Equity in a home? Household goods and personal belongings? Stamp and coin collections?

Ask a student to read Senator Philip Hart's introductory testimony to a bill on life insurance cost disclosure (see appendix). How long do most people hold their cash value policies according to Senator Hart's data? Ask the student to summarize the information for the class.

The following problems deal with the idea of compound interest, and how money will increase as it earns compound interest. If you can help students grasp this idea, they will be better able to evaluate savings plans and investment offers, will learn the importance of saving a little bit regularly, and will be able to see through a variety of fraudulent schemes. It's an important concept with many applications, and is worth extra time here.

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very few are permanent. Many if not most policyholders plan to cash policies in when they retire. Ask yourself: "What 'permanent' insurance needs do I have?"

WHOLE LIFE FORCES PEOPLE TO SAVE -- SOMETHING MANY PEOPLE CAN'T DO. Many people who can't save also don't pay the insurance premiums -- lapse rates are very high especially in the first two years, the years when little or no cash value accrues to the policy holder. However, whole life policies <u>have</u> helped many people save for retirement who otherwise would not have been able to do so. Ask yourself: "Can I save money for the long term without the force of an insurance premium?" Remember -- keeping a whole life policy for only a few years will be very expensive.

WHOLE LIFE PREMIUMS REMAIN THE SAME FOR THE REST OF YOUR LIFE, WHILE TERM PREMIUMS KEEP GOING UP. True. Whole life is a method of averaging premiums over a lifetime so that the premiums remain level. However, there is an overcharge in the early years when the probability of death is low to pay for the later years when the probability of death is high. If the insured dies, the beneficiary receives only the face value of the policy <u>not</u> the face value plus the premium overcharge. The cost of term does go up to reflect the higher probability of death as the years go by. In reality, the cost of the protection element in the whole life <u>also</u> goes up every year -- as the cash surrender value goes up, the amount of protection that the insurance company has to provide goes down. Notice also on page that term insurance premiums go up every year but by relatively small amounts until age 40 to 50. Five-year renewable and convertible term does not equal the cost at age 20 of a non-participating whole life policy until almost age 50. Note also that term insurance is usually only one-fifth to one-third the price of whole life. Ask yourself: "Will I still have protection needs after age 50?" Many people will and do, and the steep increase in term insurance premiums after this age may have some influence on the type of life insurance chosen. If the policy holder is adequately insured, if the whole life policy purchased is low cost, and if it is held for the long term, it can be a good insurance choice.

LEARNING ACTIVITIES

Ask the class the following: You've done some work for me as agreed. And the price we agreed upon for your labor is $10,000. Instead of paying you the $10,000 in one lump sum I make you the following proposal: I'll pay you $2,000 each year for the next four years, and in the fifth year, I'll pay you $3,000 -- so I'll have paid you $11,000. Do you think that this is a better offer than giving you $10,000 today? How would you decide?

Ask students: Does the amount of interest or income that you can get from investments ever change? Often? How would you find out how much investments are currently earning? Ask one group of students to contact local financial institutions to find out the interest rates and time requirements on savings accounts. Ask another group to contact a brokerage firm to learn current yields on municipal bonds, corporate bonds, and government bonds. Have the groups analyze the savings accounts and bonds as to safety. How likely is it that I can lose some of my money? Can I get the money in a hurry without a penalty? How much income will I get?

SUMMARY

WITH A WHOLE LIFE INSURANCE POLICY, THE POLICYHOLDER MAY GET BACK MORE MONEY THAN WAS PAID IN IN PREMIUMS. SO THE INSURANCE WAS "FREE." The policyholder may get back more than was paid in, but it does not follow that the insurance protection was free. Commonly called the "net cost method" of determining the price of life insurance, it is considered a deceptive sales practice by a number of experts. (See "Deceptive Sales Practices in the Life Insurance Business" by Joseph Belth, Journal of Risk and Insurance, Vol. XLI, no. 2, June, 1974, pp. 305-326.) It is deceptive because it fails to take into consideration the "time value" of money, the amount that it would earn in interest if the consumer were to invest it rather than to spend it. For example, if an individual put $100 into an account every year at 5% compounded annually, at the end of 20 years, the savings account would have grown not to just the $2,000 put into the account but to $3,471.90 (principal plus interest). At 6% the account would grow to $3,899.30. (See Tables I & III regarding compound interest.) Life insurance is never "free" although it costs less at some companies than at others.

WHOLE LIFE POLICIES PROVIDE A GOOD RATE OF RETURN FOR THE AVERAGE INVESTOR. While the rate of return on whole life insurance policies is difficult for the layperson to determine because of the combined nature of the protection and savings, experts suggest that it varies from 4 to 6%. For the investor who wishes to take no risk at all, a return of 5% is currently available on passbook savings accounts, and up to 7 3/4% on insured time deposits for longer periods and amounts over $1000. Equally safe "E" bonds offer 6%. On the slightly riskier side, corporate bonds offer 8 to 10%, and some municipal bonds and bond funds are offering 4 to 7%. Return on the stock market or in real estate is even riskier and harder to predict. The savings account and savings bonds rates are not guaranteed to continue for extended periods of time, but corporate and municipal bonds are usually for 20 to 30 years, and the rate will remain the same during that time period. However, with corporate and municipal bonds, there is no guarantee that the original amount invested will be returned in the event of the city or corporation's bankruptcy.

LEARNING ACTIVITIES

Insurance writers express many points of view regarding the merits of using a life insurance policy as a way of "saving" money. Have students debate the merits of various points of view from sources listed on page 68. Suggested authors include:

Porter -- Money Book
Belth -- Life Insurance: A Consumer's Handbook
Consumer Reports -- Consumers Union Report on Life Insurance
Gregg and Lucas -- Life and Health Insurance Handbook
Oehlbeck -- Consumer's Guide to Life Insurance

SUMMARY

WHOLE LIFE INSURANCE POLICIES OFFER A TAX ADVANTAGE BECAUSE TAX ON ANY GAIN ON THE POLICY IS TAX DEFERRED. True, if you get back more from the policy than was paid in premiums, the gain isn't taxed until you surrender the policy. But the same treatment is currently available for "E" bonds. For an investor willing and able to take a little more risk, it would be possible to get 6 or 7% tax free, not just tax deferred, income from some municipal bond funds. Also, some people are now eligible for tax deferred treatment of income through IRA's, Keogh's, and some employer-sponsored plans. Not only is income from the principal invested in it tax deferred, but the principal itself is subtracted from current income and the tax liability deferred to a later date. It might be added here that tax deferment is important only for people who are in, or expect to be in, substantial tax brackets. If you have six dependents and don't pay taxes anyway, special tax treatment is no advantage. Questions to ask yourself: "Is my tax bracket substantial enough to need special tax treatment? Can I get a better return on equally safe investments with similar tax treatment elsewhere?"

WHOLE LIFE INSURANCE POLICIES PROVIDE A VERY SAFE INVESTMENT BECAUSE THE CONTRACT GUARANTEES THE AMOUNT OF CASH VALUE THAT YOU WILL RECEIVE AT ANY POINT IN THE FUTURE. Actually, savings accounts are insured by agencies of the federal government in case of failure of the financial institution. Insurance companies are not so insured. Some states have guarantee funds, but Michigan is not one of them. However, it has been many years since a policyholder lost money in Michigan. What usually happens if a company develops problems is that another company buys or otherwise takes responsibility for the troubled company's policies so that policyholders do not lose money. To insure the safety of your cash surrender value, be sure that the company is licensed in Michigan, and check into its assets, size and reliability. This is easily done at the public library by checking Best's Insurance Reports Life and Health. Best's rates companies based on their soundness and financial stability. Their new rating system includes the following letter designations: A+ and A, excellent; B+, very good; B, good; C+, fairly good; C, fair. General investment theory says that everyone's investments should include some very safe investments, and that many people with limited savings can

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Back in 1626 the Dutch paid the Indians $24 in beads and trinkets for Manhattan Island. It's often been thought that the Indians got the bad end of the deal. However, if the Indians had invested the $24 at 6% compounded annually, how much would it have grown to today?

Ask your students: How could they find the answer to this problem? Is there an easier way to figure it than by doing over 300 hand computations? (Maybe there are charts somewhere?) Where would they find the charts if they needed them? In the library? At a financial institution? Insurance company? Have students actually work out the answer, using calculators if necessary. What effect does compounding have in the early years? In the later years? What other uses might they have for compound interest? How many years does it take for money to double at 6%? To triple?

SUMMARY

afford no risk at all. Life insurance could be considered a portion of the conservative amount of your investments. Ask yourself: "How much risk can I afford to take with my savings?"

BUY TERM AND INVEST THE DIFFERENCE. Some authors suggest that the consumer always buy term insurance and invest the difference elsewhere. They insist that buying whole life insurance is buying term and investing the difference -- with the insurance company. They feel that individuals can do better elsewhere. Weak points in the "buy term and invest the difference" theory: It assumes that the insured will invest the difference. Which comes back to the question, can people save money without being forced to? It also assumes that the individual investor will be able to receive a specified rate of return for a long period of time, something difficult to predict. Based on a detailed computer analysis of leading companies' policies conducted in 1973, Consumers Union concluded: "If the long-run, after-tax return is only 4 percent or less, the policyholder would be better off (in terms of long-run investment strategy) with a low-cost whole life policy. If the return is 5 percent, there is roughly a standoff in the case of participating policies, while the edge goes to term with nonparticipating policies. If the return is 6 percent, term is superior in both cases." (p. 135, 1977 edition of the Consumers Union Report on Life Insurance.)

Note some key points here: It must be a low-cost whole life policy, and the return that the investor must anticipate is the after tax return (because of the special tax treatment on whole life.) Cash value insurance can be useful for some people, especially those in high tax brackets. Because many people need large sums of insurance protection and because few people are in high tax brackets, Consumers Union concludes that "cash value insurance such as whole life should certainly be purchased if it meets your family's needs. But, as we've said, CU believes renewable, convertible term is the life insurance of choice for most families who need insurance." (p. 73) For a further discussion of term versus whole life see the chapter "Term versus Whole Life" in the Consumers Union book. And for a detailed example of the mathematics of term versus whole life, see the book's Appendix II "Term versus Whole Life: Investment Values."

LEARNING ACTIVITIES

SUMMARY

Additional thoughts about choosing a policy:

If you think that your insurance needs are going to decrease as each year goes by, decreasing term may make sense. However, decreasing term does not allow much flexibility if your insurance needs change.

If you wish to buy only the amount of insurance that you need each year as you need it, one-year level term makes sense. However, it is available from some companies only in large policies ($75,000 to $100,000 or more). Some experts feel that if you are building an insurance program on term insurance, that you should consider 5-year renewable and convertible term as a reasonably low cost and flexible option. Speaking of experts, you will find that very few experts agree with each other. Some experts feel one-year renewable and convertible term is best, some 5-year term, some decreasing, and some whole life. If you read five different experts, you are likely to get five different recommendations.

If you wish to buy a combination of savings and protection or if you will need protection very late in life, or if your estate needs liquidity, then whole life insurance may be appropriate.

Few independent experts recommend limited payment life insurance plans or endowment plans because these plans are very high on the savings element and very low on protection for the dollar amount of the premium. This combination meets the insurance needs of only a very small percentage of the population.

SHOPPING FOR LIFE INSURANCE

OBJECTIVE: The student will analyze the difference between premium and cost in life insurance and evaluate two common methods of determining cost.

KEY IDEA: Big differences exist in the cost of similar life insurance policies, and the annual premium alone does not always reflect the true cost of insurance. In shopping for a whole life policy, the interest adjusted cost index is a more accurate way of determining the cost of a policy than the net cost method. Premium and cost information on the policies of many large companies is available in many communities at the local library in an annually published book Best's Flitcraft Compend for those brave enough to figure out its abbreviations and charts.

LEARNING ACTIVITIES

To the teacher: The most important part of teaching life insurance to high school students should be teaching them to buy insurance based on their needs. After that, you may wish to go into the cost of life insurance. Again, how much detail you present will depend on the abilities of your students.

For those serious students, the real cost of life insurance, the chapters "Deciphering the Price" and "Shopping for a Policy" from the Consumers Union Report on Life Insurance are recommended reading.

For math students: Ask a life insurance agent to provide you with premium, dividend, and cash value scales for a 20 year period and let students compute the 20-year interest adjusted net cost index as detailed on pages 84 and 85 of the Consumers Union Report on Life Insurance.

SUMMARY

Big differences in price do indeed exist in life insurance policies. When the Michigan Insurance Bureau requested price data from 80 Michigan companies, the data revealed wide differences in premium. For example, a 25-year old could pay as little as $78.25 or as much as $121.75 for a non-participating term policy of $25,000, while a male aged 55 could pay as little as $403 or as much as $540 for the same policy. The premium differences on participating whole life policies was even greater, however. For a $25,000 policy, a 25-year old could pay from $298.75 to $442.50, while a 55-year old could pay from $1002.25 to $1304.

But in the complicated pricing structure of life insurance, there is more to the story than just the premium. With term insurance, since the buyer is paying only protection, the premium is a good way to compare costs between companies. However, with whole life this is not so. Because of the accumulation of cash surrender values in the policy, and in the case of participating policies, dividends, the real cost of the insurance protection becomes quite confusing. Some companies credit cash surrender values quite early in the policy; others pay more dividends than competing companies.

Traditionally the insurance salesman showed customers the "net cost method" of determining the cost of life insurance on whole life policies. For example, you pay $8,000 in premiums and at the end of 20 years you have $7,800 in cash surrender value. So the cost of insurance for 20 years was $200. The problem with this kind of cost appraisal is that it

LEARNING ACTIVITIES

For a relatively simple, but more detailed explanation of the interest-adjusted method than is presented here see the free pamphlet "The Interest-Adjusted Method" from the American Council of Life Insurance, or the chapter "Deciphering the Price" in the Consumers Union Report on Life Insurance.

See Belth's Life Insurance: A Consumer's Handbook for a detailed explanation of the company retention method; or Belth's article "information Disclosure to the Life Insurance Consumer" in the December 1975 issue of the Drake Law Review. Belth's book includes his analysis of the real cost of policies from 50 of the biggest insurance companies.

Assign students to visit the library to use Best's Flitcraft Compend or 1976 Life Rates and Data. Have them review the charts at the beginning of each book which summarize the premium and the interest adjusted cost index. What is the highest and the lowest premium? What is the highest and lowest cost index? Can students discern any patterns in pricing? Is there a lack of pattern?

SUMMARY

takes no account of the time value of your money. In fact in some cases, it shows that you come out making money and that the insurance costs you nothing at all (insurance for nothing?).

In recognition of the fact that net cost was not an adequate method of cost disclosure, the industry in 1970 developed the interest adjusted net cost index (sometimes also called the surrender index) as a method of comparing costs. This index includes interest, usually at 4% or 5% as a factor in determining cost. The index reveals interesting facts about the costs of policies with similar premiums. For example, two companies offer $25,000 participating whole life policies to 25-year old males at a premium of $421.25. However the interest-adjusted index on one policy is 1.83, and on the other is 4.11, meaning that one policy has a cost, when interest is taken into account, of $1.83 per year per thousand dollars of coverage, while the cost on the other policy is $4.11 per year per thousand. The index can be used to compare the cost of a whole life policy against another whole life policy, but cannot be used to compare a whole life policy against a term policy.

Another proposed method of comparing insurance costs is the company retention method. This compares how much the company keeps as opposed to how much it gives back to the policyholder as a measure of cost. Indexes using this method are not widely available and it is not especially liked by industry. Both Congress and the FTC are looking at alternate methods of price disclosure to see what would be most useful to consumers, but no concensus appears to have developed yet. The problem again is the complicated nature of the whole life insurance contract. To reveal a great deal of useful information may be worse than an over-simplified index because it may only confuse consumers. Results from the FTC and Congressional inquiries are still years away.

Until a more definitive price disclosure system is developed, consumers should be aware of the widely varying costs of the same policy at different companies. They should be aware that the company with the lowest cost term policy may have a very expensive whole life policy and vice versa. They should be aware that the company with the lowest cost policy for a 25-year old may be the most expensive company for the 55-

LEARNING ACTIVITIES

SUMMARY

year old. They should be aware that one company's standard policy may be more expensive than another's substandard policy. They should be aware that larger policies usually cost less per thousand than smaller policies, and therefore, it is more economical to take care of insurance needs in one large policy than in several small ones. And until a more sophisticated cost analysis is developed, life insurance buyers should ask for the interest-adjusted net cost index as a more realistic way of comparing the real cost of whole life insurance policies.

TABLE VI

COMPOUND INTEREST, A SERIES OF DEPOSITS

If, at the beginning of each year, you deposit $500 in an account that pays 6% compounded annually, how much will be in the account at the end of 15 years? 500 x 24.673 = $12,336.50

Years	3%	4%	5%	6%	7%	8%	9%	10%
1	1.030	1.040	1.050	1.060	1.070	1.080	1.090	1.100
2	2.091	2.122	2.153	2.184	2.215	2.246	2278	2.310
3	3.184	3.246	3.310	3375	3.440	3.506	3.573	3.461
4	4.309	4.416	4526	4637	4751	4.867	7.985	6.105
5	5.468	5633	5.802	5.975	6.153	6.336	6.523	6.716
6	6.662	6.898	7.142	7.394	7.654	7923	8.200	8.487
7	7.892	8.214	8.549	8.897	9.260	9.637	10.029	10.436
8	9.159	9.583	10.027	10.491	10.978	11.488	12.021	12.579
9	10464	11.006	11.578	12.181	12.816	13.487	14.193	14.937
10	11.808	12.486	13.207	13.972	14.784	15.645	16.560	17.531
11	13.192	14.026	14.917	15.870	16.888	17.977	19.141	20.384
12	14.618	15.627	16.713	17.882	19.141	20.495	21.953	23.523
13	16.086	17.292	18.599	20.015	21.550	23.215	25.019	26.975
14	17.599	19.024	20.579	22.276	24.129	26.152	28361	30.772
15	19.157	20.825	22.657	24.673	26.888	29.324	32.003	34950
16	20.762	22.698	24.840	27.213	29.840	32.750	35.974	39.545
17	22.414	24.645	27.132	29.906	32.999	36.450	40.301	44599
18	24.117	26.671	29.539	32.760	36.379	40.446	45.018	50.159
19	25.870	28.778	32.066	35.786	39.995	44.762	60.160	56.275
20	27.676	30.969	34.719	38.993	43.865	49.423	56.765	63.002
21	29.537	33.248	37.505	42.392	48.006	54.457	61.873	70.403
22	31.453	35.618	40.430	45.996	52.436	57.893	68.532	78.543
23	33.426	38.083	43.502	49.816	57.177	65.765	76.790	87.497
24	35.459	40.646	46.727	53.864	62.249	72.106	83.701	97.347
25	37.553	48.312	50.113	58.156	67.676	78.954	92.324	108.182
26	39.710	46.054	53.669	62.706	73.484	86.351	101.723	120.100
27	41.931	48.9[illegible]	57.403	67528	79.698	94339	111.968	138.210
28	44219	51.9[illegible]	61.323	72.640	86347	102.966	123.135	147631
29	46,575	55.085	65.439	78.058	93.461	112.283	135.308	163.494
30	49.003	58.328	69.761	83.802	101.073	122.346	148.575	180.943
31	51.503	61.701	74.299	89.890	109.218	133.213	163.037	200.138
32	54.078	65.209	79.064	96.343	117.933	144951	178.800	221.252
33	56.730	68.858	84.067	103.184	127.259	157.627	195.982	244.477
34	59462	72.652	89.320	110.435	139.257	171317	214.711	270024
35	62.276	76.598	94.836	118.121	147.913	186.102	235125	298.127
36	65.174	80.702	100.628	126.268	159.337	202.070	257.376	329.039
37	68.159	84.970	106.709	134.904	171.561	219.316	281.630	363.043
38	71.234	89.409	113.095	144.058	184.640	237.941	308.066	400.448
39	74.401	94025	119.800	153.762	198.605	258.056	336.882	441.593
40	77.663	98.826	126.840	164048	213.610	279.781	368.292	486.852

TABLE VII

COMPOUND INTEREST, A SINGLE DEPOSIT

If you place a single deposit of $500 in an account earning 6% compounded annually, how much will that $500 have grown to by the end of the 15th year? $500 x 2.397 = $1198.50

	3%	4%	5%	6%	7%	8%	9%	10%
1	1.030	1.040	1.050	1.060	1.070	1.080	1.090	1.1[illegible]
2	1.061	1.082	1.103	1.124	1.145	1.166	1.188	1.2[illegible]
3	1.093	1.125	1.158	1.191	1.225	1.260	1.296	1.331
4	1.126	1.170	1.216	1.262	1.311	1.360	1.412	1.4[illegible]
5	1.159	1.217	1.276	1.338	1.403	1.469	1.539	1.6[illegible]
6	1.194	1.265	1.340	1.419	1.501	1.587	1.677	1.771
7	1.230	1.316	1.407	1.504	1.606	1.714	1.828	1.9[illegible]
8	1.267	1.369	1.477	1.594	1.718	1.851	1.993	2.14[illegible]
9	1.305	1.423	1.551	1.689	1.838	1.999	2.172	2.35[illegible]
10	1.344	1.480	1.629	1.791	1.967	2.159	2.367	2.5[illegible]
11	1.384	1.539	1.710	1.898	2.105	2.332	2.580	2.853
12	1.426	1.601	1.796	2.012	2.252	2.518	2.813	3.13[illegible]
13	1.469	1.665	1.886	2.133	2.410	2.720	3.066	3.45[illegible]
14	1.513	1.732	1.980	2.261	2.579	2.937	3.342	3.797
15	1.558	1.801	2.079	2.397	2.759	3.172	3.642	4.17[illegible]
16	1.605	1.873	2.183	2.540	2.952	3.426	3.970	4.59[illegible]
17	1.653	1.948	2.292	2.693	3.159	3.700	4.328	5.054
18	1.702	2.026	2.407	2.854	3.380	3.996	4.717	5.5[illegible]
19	1.754	2.107	2.527	3.026	3.617	4.316	5.142	6.11[illegible]
20	1.806	2.191	2.653	3.207	3.870	4.661	5.604	6.727
21	1.860	2.279	2.786	3.400	4.141	5.034	6.109	7.4[illegible]
22	1.916	2.370	2.925	3.604	4.430	5.437	6.659	8.14[illegible]
23	1.974	2.465	3.072	3.820	4.741	5.871	7.258	8.954
24	2.033	2.563	3.225	4.049	5.072	6.341	7.911	9.8[illegible]
25	2.094	2.666	3.386	4.292	5.427	6.848	8.623	10.83[illegible]
26	2.157	2.772	3.556	4.549	5.807	7.396	9.399	11.91[illegible]
27	2.221	2.883	3.733	4.822	6.214	7.988	10.245	13.11[illegible]
28	2.288	2.999	3.920	5.112	6.64[illegible]	8.627	11.167	14.421
29	2.357	3.119	4.116	5.418	7.114	9.317	12.172	15.86[illegible]
30	2.427	3.243	4.322	5.743	7.612	10.063	13.268	17.44[illegible]
31	2.500	3.373	4.538	6.088	8.145	10.868	14.462	19.19[illegible]
32	2.575	3.508	4765	6.453	8.715	11.737	15.763	21.11[illegible]
33	2.652	3.648	5.003	6.841	9.325	12.676	17.182	23.2[illegible]
34	2.732	3.794	5.253	7.251	9.978	13.690	18.728	25.548
35	2.814	3.946	5.516	7.686	10.677	14.785	20.414	28.1[illegible]
36	2.898	4.104	5.792	8.147	11.424	15.968	22251	30.9[illegible]
37	2.985	4.268	6.081	8.636	12.224	17.246	24.254	34.00[illegible]
38	3.075	4.439	6.385	9.154	13.079	18.625	26437	37.4[illegible]
39	3.167	4616	6.705	9.704	13.995	20.115	28.816	41.1[illegible]
40	3.262	4.801	7.040	10.286	14.974	21.725	31.409	45.2[illegible]

POLICY OPTIONS AND PROVISIONS

OBJECTIVE: Given the following list of insurance options and policy provisions, the student will correctly identify each: renewable, convertible, waiver of premium, guaranteed insurability, accidental death, beneficiary designation, incontestable clause, suicide clause, reinstatement rights, grace period, mistatement of age, policy loan, non-forfeiture options, dividends.

KEY IDEA: Once the basic insurance decision has been made, decisions about policy options should be made. The consumer should be aware of certain policy provisions which may increase or limit the benefit he/she receives from the policy.

LEARNING ACTIVITIES

Look up the premiums for the renewable and the non-renewable term policies of one insurance company. How great is the difference in premium?

SUMMARY

In addition to the initial decisions regarding how much life insurance and which type to buy, the insurance purchaser has to make some decisions regarding insurance options.

RENEWABLE -- For the consumer who is basing an insurance program on term insurance, the policy should definitely be renewable -- the insured would not wish to become uninsurable and find that insurance was no longer available when the term policy expired. Renewability guarantees the policyholder the right to continue the policy, but at the rates applicable for a person of the insured's age at the time the policy is renewed. Many insurance policies automatically include the renewable feature, but not all do. Since the company is taking some added risk -- the insured may decide to continue the policy longer than ordinary if he/she does become uninsurable-- the renewable feature does cost more than non-renewable term would.

CONVERTIBLE -- Again, this often recommended feature will cost a small extra fee. It gives a term insurance policyholder the right to convert the policy to a whole life policy of the same face value. This may be valuable if later in life an individual discovers ongoing insurance needs, such as for estate settlement. Usually policies indicate that they may be converted only until a specified age, usually 60, 65 or 70. The rates on the whole life policy will be those in effect at the time of conversion for an individual of the insured's age. Only rarely do policies either state in advance what the premium will be after the conversion, or permit application of previous term premiums against the new whole life policy.

LEARNING ACTIVITIES

Review the American Council of Life Insurance's sample policy. How is disability defined? What are the exclusions?

Ask students: Under what circumstances would a guaranteed insurability option be valuable?

Ask a student to find out from the Michigan Statistical Abstract in the library how many people in Michigan die from accidents each year? What age group has the highest death rate from accidents? Is it high enough to justify an accidental death option?

SUMMARY

WAIVER OF PREMIUM DISABILITY BENEFIT -- The waiver of premium benefit provides that if the policy holder is disabled for a certain period of time, the premiums on the life insurance policy will be waived. This is a generally recommended option since an individual perhaps has more need for an adequate insurance program after a disability and would not wish to see a life insurance program lapse because of disability. Read the contract provision carefully to see exactly what it promises. How long do you have to be disabled? Does it cover only disability resulting in inability to work at any occupation? Inability to work at your regular occupation? Inability to work at any occupation for which you are suited by training and education? How long will the premium be waived? Two years only? Until retirement? Until you are no longer disabled?

GUARANTEED INSURABILITY -- The guaranteed insurability feature gives you the right to purchase more insurance at set periods in the future at agreed upon rates. In other words, if you have $10,000 insurance now, the guaranteed insurability feature will give you the right to purchase more insurance, at the ages specified in the contract. You are now 25. A typical insurability clause says that at ages 28, 31, 34, 37 and 40 you can purchase $10,000 more insurance regardless of whether or not you are then insurable. At each age you can elect to purchase the $10,000 insurance or not to purchase it. Again, obviously, this option will cost extra because you are purchasing the right to make the company take a poor health risk. This option is particularly valuable if you have a limited amount of insurance now but foresee a need for more later. This option is not normally available on term policies, nor can it be used to buy term insurance.

ACCIDENTAL DEATH -- This option is not highly regarded by most experts. Often called "double indemnity," it provides that double the face value (or some other multiple) will be paid to your beneficiary in the event that you die by "accidental means." In reality, very few people die by "accidental means." While the premium for the accidental death benefit is realtively small, the chance that your beneficiaries will collect on it are even smaller. Besides, why would your family need more money if you died"accidentally"than they would if you died any other way? If your insurance coverage is adequate, you don't need accidental death; and if it isn't adequate, it still won't be even with the accidental

LEARNING ACTIVITIES

Review the accidental death clause in a policy. How is "accidental death" defined? What is specifically excluded?

How often should beneficiary designations be reviewed? How would you keep a handy record of whom you had placed as beneficiary on a number of policies?

Review the incontestable clause in a policy. Are there any limitations on the clause?

SUMMARY

death benefit, because of the small chance that you will die by accidental means.

Life insurance policies also contain standard provisions(many of which are required by law) of which the owner should be aware:

BENEFICIARY DESIGNATION -- The owner of the policy has the right to name the person who is to receive the proceeds of the policy. If the owner does not do so, the proceeds will be payable to the deceased's estate and the courts will decide who will receive it based on the state's inheritance laws. A primary and a contingent beneficiary can be named. The primary beneficiary is the person who will receive the proceeds. The contingent beneficiary receives the proceeds only if the primary beneficiary has died before the insured. Be as specific as possible in naming a beneficiary. Don't say "my son" but rather "John Weatherstark III, my son" so there is no question about whom you mean. Be sure to change beneficiaries as situations change, particularly after a divorce, unless you intend your previous spouse to remain the beneficiary. Most beneficiary designations are revocable, that is, you can change them whenever you desire. Only rarely, as in a divorce settlement or for tax reasons, is the beneficiary designation made irrevocable. Once made irrevocable, it can be changed only with the express written permission of the designated beneficiary.

INCONTESTABLE CLAUSE -- If an individual lies on an application to obtain life insurance, and dies shortly thereafter, the insurance company will likely deny the claim if the misrepresentation is determined to have been "material," that is, if they would have turned down the application had they known the truth. However, the incontestable clause provides that after two years, the company will have to pay the claim anyway, because it had ample opportunity to investigate the truth of your statements. This clause is a valuable one, even if you don't lie, because sometimes circumstances may look suspicious and cause the company to investigate the claim. (Perhaps you die of leukemia, but you didn't know you had it when you filled out the application, so there was no misrepresentation). For this reason, some experts recommend caution in cancelling policies once the incontestable clause goes into effect.

LEARNING ACTIVITIES

Contact the Michigan Insurance Bureau. What is the maximum interest rate that a company can charge on policy loans in Michigan? How does it compare with rates on older policies? With other consumer loan companies?

How would you decide which option regarding dividends makes the most sense for you? Which would you choose? Why?

SUMMARY

SUICIDE CLAUSE -- The suicide clause provided that if you commit suicide within two years after the policy goes into effect, one year in some states, the claim will be denied. However, after that, claims resulting from suicide will be paid on the assumption that the social needs of the family are paramount, and that they deserve the protection upon which they depend. Since suicide is a very small source of loss to the insurance companies, they should be able to allow for the losses in their rate structure.

GRACE PERIOD -- The grace period is a 31-day period after the due date of your premium during which your insurance policy will remain in force in spite of the fact that the premium has not been paid. If you die during this period, the policy will pay the face value minus the annual premium to your beneficiary. Be careful of taking advantage of this grace period and mailing payments late; if payments get to the company after the end of the grace period, your coverage could lapse.

MISTATEMENT OF AGE -- Insurance companies find that people sometimes lie about their age. If the company finds it will not deny the claim because of misrepresentation, but rather will adjust the proceeds to the amount of insurance that the premium would have bought at your correct age. If you are 35 but claim you are 32, and thus get a lower premium rate, then in the event of your death, the face value would be reduced to the amount of insurance that the lower premium would have purchased at age 35.

POLICY LOANS -- You can borrow on a whole life policy the amount of the cash surrender value which has accumulated at the interest rate stated in the policy. The loan does not have to be paid back in any specified time period. But if the loan is not paid back before you die, it will be subtracted from the face value of the policy that is paid to your beneficiary.

DIVIDEND OPTIONS -- If the policy is a participating policy and pays dividends, you may have several options about what is done with the dividends. You may 1) have the cash sent to you, 2) have the cash used to reduce your next premium, 3) buy additional amounts of paid up insurance, 4) leave the dividend with the company to accumulate at the interest rate currently being paid by the company, and 5) take the dividend and buy one-year term insurance with it (not available from all

LEARNING ACTIVITIES

Jim Jones is dying from cancer. He decides to stop paying premiums on his whole life insurance policy. Why do you think he did so? Which option do you think he will choose when he forfeits policy?

Assign a student to read the recommendations of the Consumers Union Report on Life Insurance on dividend options and non-forfeiture rights. Does the class agree with CU's recommendations?

SUMMARY

companies.) Other options are available, but these are the most typical.

REINSTATEMENT RIGHTS -- If you have allowed your whole life insurance policy to lapse through non-payment of premiums, you may be able to have the policy reinstated provided that 1) you left the cash value with the company in the first place, 2) you pay all the back premiums plus interest, 3) you reinstate it within a 3 to 5 year period after the lapse, and 4) you can prove your insurability at the time of reinstatement. In some cases reinstatement may not even be necessary because some policies provide that premiums will be paid by automatic loan from the cash value as long as the cash value remains.

NON-FORFEITURE RIGHTS -- In case you decide to cancel the policy, or forfeit it, you have several options regarding the cash surrender value which has built up in the policy. You could 1) take the cash, 2) buy a reduced paid up policy -- this means that you use the cash surrender value to buy as much paid-up-for-your-lifetime insurance as the cash value will buy -- the schedule of how much it will buy is included in the policy; 3) buy extended term -- the cash surrender value will buy a certain number of years of term insurance of the same face value as your original policy. For example, after five years of payments, the cash surrender value of the policy might purchase the same amount of coverage in term insurance for another 10 years and 311 days. No premiums would have to be paid during that time, but the insurance would end after the 10 years and 311 days, 4) use the cash surrender value to purchase an annuity -- monthly income for the rest of your life.

POST-TEST -- INSURANCE

True-False:

_____ 1. Net cost is the best way of evaluating the cost of a whole life insurance policy.

_____ 2. The incontestable clause of an insurance policy provides that insurance companies can argue about whether or not to pay a death claim if the insured dies within 10 years of obtaining the policy.

_____ 3. Accidental death riders are not generally recommended as good insurance coverage.

_____ 4. A non-participating policy is one in which the policyholder does not receive an increase in cash value.

_____ 5. Endowment policies are highly recommended by independent investment experts as a good way to save.

_____ 6. Life insurance on children is not usually recommended.

_____ 7. The primary purpose of life insurance is to provide retirement income for the policyholder.

_____ 8. Since it's more likely that a consumer will damage a car in a "fender-bender" than be involved in a serious accident, it's more important to have collision coverage than a large amount of liability insurance.

_____ 9. An insurable risk must have a large number of exposure units.

_____ 10. The principle of indemnity provides that the insured will be restored to the same financial position that he/she was in before the loss.

_____ 11. In a decreasing term policy, the amount of insurance remains the same, but the premium goes down each year.

_____ 12. In a level term policy, the premium goes up each time the policy is renewed, whereas in a whole life policy the premiums remain constant for the insured's entire life.

_____ 13. The premiums for a whole life policy are about the same as the premiums for a term policy for an individual at a given age.

_____ 14. The younger your age when you purchase a whole life policy, the less expensive the total cost will be to you.

_____ 15. All term insurance is renewable.

Matching:

_____ 16. Usually no medical exam required.

_____ 17. Premiums collected weekly or monthly, usually at the policy-holder's home.

_____ 18. Usually has no cash surrender value.

_____ 19. Premium remains the same each year, but the face amount of the policy reduces over the term of the policy.

_____ 20. Policy usually matures at age 90, 95 or 100.

_____ 21. A lifetime policy will be paid up in a specified number of years.

_____ 22. Cash value equals face amount at the end of the payment period.

_____ 23. Cash value exceeds face amount at end of payment period.

_____ 24. Policy holder can borrow the cash surrender value.

a. Whole Life

b. Term Insurance

c. Decreasing Term

d. Retirement Income

e. Group Life

f. Limited Payment Whole Life

g. Industrial Life Insurance

h. a., d., f. and i.

i. Endowment

SOURCES OF ADDITIONAL INFORMATION

BOOKS AND ARTICLES

A. M. Best Company. Best's Flitcraft Compend. 90th ed. Oldwick, N. J.: A. M. Best Company, 1977. Excellent resource for comparing cost information on policies from different companies. Includes premium data, illustrated dividends, cash values, interest-adjusted indexes, etc., from over 400 companies. May, however, take some diligent study to figure out meaning of some abbreviations. Price of $10 includes this book plus subscription to Best's Review, Life/Health Insurance Edition, published monthly, including current data on policies plus differing points of view about issues in the life and health insurance industries.

American Council of Life Insurance, 1850 K Street, N.W., Washington, D. C. 20006. The American Council of Life Insurance is a trade association for life insurance companies in the United States. It publishes a wide variety of materials which are available free for use in the classroom. Some of these materials are very useful in the classroom, although the teacher should be aware that they often include a subtle bias for whole life insurance. Some publications that you might wish to send for include:

"A Date With Your Future" -- a workbook which encourages the student to begin thinking about the future and likely financial responsibilities.

"Policies for Protection" -- a workbook which describes some types of life and health insurance and some of the options available.

"Sets, Probability and Statistics: The Mathematics of Life Insurance" -- a workbook for the mathematically inclined which provides problems that illustrate the numerical and actuarial basis of life insurance. Is not simple math.

"Sample Whole Life Insurance Policy" -- While this sample policy is written in more simple language than a real policy would be, it would give a student an idea of the clauses and provisions in a whole life policy. Also includes a sample life insurance application.

"Life Insurance Fact Book" -- Published yearly, it provides data on volume of insurance sold, types, number of policies, etc.

"List of Worthwhile Life and Health Insurance Books" -- A rather comprehensive listing of publications available on life insurance, although those most radically critical of the industry are not included.

"Comparing Life Insurance Costs: The Interest-Adjusted Method" -- Offers a relatively simple description of the interest-adjusted method of comparing insurance policy costs.

Belth, Joseph M. Life Insurance: A Consumer's Handbook. Bloomington: Indiana University Press, 1973. The author concludes that, if the consumer purchases a low cost straight life insurance policy, then such a policy would be a staisfactory device for accumulating savings. The difficulty is in finding a low cost policy because of the complex nature of a whole life policy. He offers his own price data on about 50 companies using the "company retention" method. His is a consumer-oriented approach though it differs considerably from most of the consumer literature on life insurance.

Belth, Joseph. "Deceptive Sales Practices in the Life Insurance Business." The Journal of Risk and Insurance, Vol. XLI, No. 2 (June, 1974), pp. 305-326. The article describes sales practices which are deceptive because they manipulate numbers to appear to support something that is not true.

Belth, Joseph. "Information Disclosure to the Life Insurance Company." Drake Law Review Insurance Law Annual, Vol. 24, No. 4, (Dec. 1974), pp. 727-752. In this article, Belth describes some kinds of information which would be helpful to consumers in judging the best insurance buy if they were given the information.

Consumer Reports, editors. The Consumers Union Report on Life Insurance. Consumers Union, Orangeburg, N. Y., 1977. This completely revised edition is the best analysis of life insurance from the consumer's point of view available. A must for the classroom library. Includes a discussion of buying term and investing the difference, how to determine the amount of insurance an individual needs, an analysis of the value of various options an individual can buy, information on when switching policies makes sense, and how to comparison shop for a policy. Available from Book Dept., A018, Consumers Union, Orangeburg, N. Y. 10962, $3.00 plus 50¢ postage and handling.

Elliott, Curtis M., and Vaughan, Emmett J. Fundamentals of Risk and Insurance. New York: John Wiley & Sons, Inc., 1972. Introduces insurance through the principles upon which it is based. Explains principles of risk management upon which insurance should be based. Includes history of insurance, explanation of various types of policies, and some general buying advice.

Greider, Janice E., LL.B., FLMI, CLU, and Beadles, William T., D.B.A., CLU. Principles of Life Insurance, Vol. 1. Homewood, Illinois: Richard D. Irwin, Inc., 1972. This book, written for office employees in the life insurance industry, explains how insurance works with detail on different types of policies, options, clauses, riders, etc. A readable, useful book for learning industry terminology, but in reading its purchasing conclusions, the reader should be aware that it reflects the industry point of view.

Gregg, Davis W., and Lucas, Vane B., ed. Life and Health Insurance Handbook. 3rd ed. Homewood, Illinois: Richard D. Irwin, Inc., 1973. A collection of 72 essays written by a number of insurance industry experts. In general, reflects the insurance industry point of view. Provides valuable information about insurance history and about the intricacies of insurance policies. Appendixes include sample policies, laws affecting insurance industry, and miscellaneous tables. Useful book for those wishing to dig deeper into the subject of life insurance.

Michigan Insurance Bureau. "Consumers' Guide to Life Insurance in Michigan." Michigan Insurance Bureau, P. O. Box 30220, Lansing, Michigan 48909. This publication, free in classroom quanities, provides policy premiums and interest-adjusted cost data on the largest insurance companies in Michigan by volume of business done.

Oehlbeck, J. Tracy. The Consumer's Guide to Life Insurance. New York: Pyramid Books, 1975. This author is violently against whole life insurance in any form. He offers a variety of mathematical calculations to prove that buying term and investing the difference makes the most sense economically. Answers argument after argument to prove his point. Makes very interesting reading but the individual should probably also read an author with a more moderate approach to get a more complete perspective.

Porter, Sylvia, Sylvia Porter's Money Book. Garden City, N. Y.: Doubleday and Company, Inc., 1975. Pages 788 to 812 provide good general advice on life insurance buying. Does not include specific price data, charts, etc. Takes the middle road in the term vs. whole life controversy. Paperback version available in bookstores for $5.95.

Primavera, Joanne. Life Insurance Learning Activity Package. Seattle: Unigraph, 1977. Highly recommended. This programmed learning package could be the core of a unit on life insurance. It is clear, well thought out, and consumer oriented. Could be used by itself for brighter students or supplemented with classroom activities for a whole class. Available from Unigraph at 1428 Harvard Avenue, Seattle, Washington 98122, for $12.50 -- includes teacher's guide, and right to duplicate the material for your classroom. Or, purchase workbooks (which cannot be duplicated), $14.50 per dozen with teacher's guide, $13.50 per dozen without teacher's guide.

Reynolds, G. Scott. The Mortality Merchants. New York: David McKay Company, Inc., 1968. The central recommendation of this book is that the insurance buyer should purchase decreasing term to age 65. He, however, also cautions against salesmen selling term plus some kind of investment. He says "never combine your death protection with anybody's plan that includes anything else." Has an anti-insurance industry (not anti-insurance) tone that will offend some people.

Rough Notes Company. Personal Insurance Guide. Indianapolis: Rough Notes Co., Inc., 1976. This book provides an in-depth analysis of homeowners and auto insurance policies. Written for insurance agents, some of the terminology may be too technical for beginning lay people in insurance. It is, however, useful in determining the meaning of various clauses in the above mentioned casualty policies.

Young, James. "Consumer Problems with Industrial Life Insurance." The Journal of Consumer Affairs, Vol, 10, No. 2, (Winter 1976), pp. 255-260. Young describes an interesting phenomenon: It is supposed that industrial life insurance is dying out, but his data shows that over one-third of the ordinary life policies sold in 1974 were weekly premium policies, even though the face amount of this insurance was only 4% of the total sold in 1974.

AUDIO-VISUAL

How Much Life Insurance Do You Need? Changing Times, Education Service, Dept. RMCS, 1729 H Street, N.W., Washington, D. C. 20006, $12. An inquiry-oriented mini-unit. Includes 25 copies of a four-page discussion "How Much Life Insurance Do You Need?" and one overhead transparency, plus a teacher's guide. Quite good in bringing home to a student how life insurance should actually be figured.

Insurance. Aetna Life and Casualty, 151 Farmington Ave., Hartford, Cn. 06115, $110. 16mm film that talks about all kinds of insurance, but the last half is devoted to life insurance. May bore your students because there is no action, just two men talking. Is not consumer oriented, but does present a typical life insurance saleman's pitch.

Social Security Audio-Visual Teaching Aids. Distribution Liaison, Office of Information, Room 100, Altmeyer Bldg., Social Security Administration, Baltimore, Md. 21235, 1977. Free. This set of three filmstrips is free from the address above. The first two explore the historical basis of social security, and the third explains what SSI (Supplemental Security Income) is. Geared to high school students, it does a creditable job of making young people aware of the coverages afforded by social security.

Understanding Insurance. Philadelphia: Curriculum Materials Corp., n.d. $6 from Curriculum Materials Corporation, 1319 Vine Street, Philadelphia, Pa. 19107. An excellent filmstrip to introduce the insurance concept. No cassette accompanies it so you will have to read the captions. Is humorous, but makes the point.

APPENDIX

ANSWER KEY

Pre-Test

1. d
2. d
3. c
4. False
5. False
6. False
7. False
8. False
9. False
10. False

Post-Test

1. False
2. False
3. True
4. False
5. False
6. True
7. False
8. False
9. True
10. True
11. False
12. True
13. False
14. False
15. False
16. Group Life
17. Industrial Life Insurance
18. Term Insurance
19. Decreasing Term
20. Whole Life
21. Limited Payment Whole Life
22. Endowment
23. Retirement Income
24. hw

INTRODUCING A BILL IN THE SENATE

"CONSUMER INSURANCE INFORMATION AND FAIRNESS ACT"

TESTIMONY OF SENATOR PHILIP A. HART
INTRODUCING THE BILL AS RECORDED IN THE
CONGRESSIONAL RECORD -- SENATE, PAGES 11975-11977,
JULY 8, 1975

S.2065. A bill to regulate commerce by authorizing the Federal Trade Commission to protect consumers against unfair or deceptive advertising, promotion, or sales practices and by providing for full, accurate, and clear disclosure of price and other information needed for consumers with respect to certain insurance policies, and for other purposes. Referred to the Committee on Commerce.

Mr. PHILIP A. HART: Mr. President, what would you think of this sales pitch?

> *This, my friend, is the most important buying decision you will ever make. This product is so good that during the first 13 months of ownership 52 percent of buyers last year returned it. Low cost? It is so low cost that owning it 40 years costs only $3,550 more than an almost identical product.*

How many of these do you think salesmen could sell:

Commonsense says none. But unfortunately, in 1973 alone more than 20 million Americans laid down nearly $4 billion for a new model and 120 million paid more than $16 billion for the upkeep of an earlier edition -- not knowing if they had the inexpensive, expensive, or in-between model.

The product is life insurance. Two out of three Americans have it. Yet, I am sure, few more than a handful understand life insurance or even know what this protection costs them. That select group, I am quick to admit, does not include me. Any attempt I make at explaining life insurance probably will complicate matters. But let me give it a go.

There are two basic kinds of life insurance -- term and straight life. All term insurance gives is financial protection against premature death. It is like fire insurance for your home. If the house burns down, you collect; if it does not, you do not get a premium refund. The idea is you got what you paid for: Protection against fire loss. With term life insurance, you pay for and get death protection.

Of course, term premium also covers the company's overhead and profit.

Now, because each year we live increases the likelihood of our death, protection against death becomes more costly yearly. Term insurance premiums which may be very attractive for a 20-year old grow almost prohibitive for an oldster. So the idea of leveling the premiums -- where the young overpay and the older ones underpay for protection -- was born. These are the straight life policies. The excess amounts charged in the earlier years give rise to the "savings" part of insurance -- or in the parlance of the industry, the "cash value."

To further complicate things, most cash value straight life policies sold today are "participating" or pay annual "dividends." But these are not "dividends" in the sense of cash payments annually to stockholders. They are really the payout of a benefit built into the premium or a refund of a premium overcharge. And that is exactly how Federal tax law treats them -- as a refund and, therefore, nontaxable.

The most important thing to remember about life insurance is that the cost of death protection increases yearly. And, whether we buy term or straight life, we are paying that increased cost in our premium.

When a consumer shops for life insurance -- or as the industry would say "it is sold to him" -- he is not told the cost of death protection. About the only figure quoted is the premium -- and perhaps dividends and cash values for selected years. But the Antitrust and Monopoly Subcommittee's pricing study shows consumers should place little reliance on premiums to determine cost -- particularly with dividend-paying cash value policies.

Premiums for these policies do vary -- but very little compared with differences in the consumer's cost -- meaning what he pays for protection plus what the company retains for expenses and profit. In fact, premiums can be extremely misleading from the competitive standpoint. Consider the premiums and the cost to a 25-year-old consumer for a $10,000 dividend-paying straight life policy from the following reputable companies:

	Premium	Cost to Consumer
Company A	$177	$ 50
Company B	175	69
Company C	172	118
Company D	172	69
Company E	171	55
Company F	170	54

Although the premium for the Company C policy "beats" the Company A premium by $5, this consumer would pay, on the average year after year $68 more for the "C" policy.

In other words, in life insurance what you see is what you get, but what you pay is not what it costs.

Mr. President, my first awareness of the problems consumers have in figuring out the best -- or at least a good -- buy in life insurance came back in the 1960's. It was brought to my attention via the problems involved for Vietnam veterans who had only 120 days to convert their military life insurance policies to cash value plans without evidence of insurability.

About 3 years ago, the Antitrust and Monopoly Subcommittee staff began looking into the subject in some depth. Hearings were held in early 1973, and then, we set out to gather detailed data on industry pricing -- with special attention to trying to find a method to give consumers accurate, reliable and clear price, benefit and other relevant information. The subcommittee also gathered detailed data from the companies on lapsation of policies and general information about sales practices and the life insurance agency system. The study was done in cooperation with the National Association of Insurance Commissioners.

Basically, what we did was gather from 198 companies -- who did around 95 percent of the new and renewal individual ordinary life insurance business in this country in 1972 -- data on their three top selling cash value policies. Information about these policies was gathered as of July 1, 1973. That data was fed into a computer, and each policy was measured by eight cost comparison methods, with various assumptions. When the assumptions are added, each policy was measured 31 times for four selected ages, six policy sizes, and four policy time periods.

Mr. President, the study was published last fall and the data is being used by the NAIC Task Force on Pricing, and a number of State commissioners. The computer data bank was relied on extensively also by the Society of Actuaries Committee on Cost Comparison Methods for its study published last fall.

Many conclusions have been drawn from this data -- and no doubt many remain to be drawn.

In general, we found that the cost ranges among similar policies was even greater than we had thought, the rate of return on the savings element of most policies was very low, and the number of policies consumers purchased, but did not pay the second premium on was really startling.

The cost range I referred to in opening came from the data in the study: The range of 40-year company "retentions" for expenses and profit among 166 non-participating $25,000 straight life policies sold in 1972 to men age 35 was from $1,143 to $4,692. For a similar example for 163 participating $25,000 straight life policies, the retention range was from $630 to $3,409.

Typically, most of the policies had from one-half of 1 percent to 3½ percent rates of return on their savings element. But a few policies did have as high as 5.2 percent rate of return. At present, of course, there is no way for policyholders to know which are the better buys.

The 52 percent lapse rate came from one of the biggest selling cash value policies of a company whose name could certainly be considered a household word. It is very high -- but not the highest showing up in the study. For 59 of the largest companies, on average, about 18 percent of all straight life policies sold are lapsed by the consumer within the first 13 months. In fact, only about one-third of policyholders keep their policies until their old age. Nearly one-half drop their policies within 10 years, and nearly three-fifths within 20 years of purchase.

However, average industry figures for all policies sold do not sufficiently indicate just how high early lapse rates are. A better indicator is the 13-month lapse rate of the biggest selling cash value policy of each company. For instance, of 148 companies surveyed by the subcommittee, one out of four policyholders of 64 companies dropped the best selling policy within 13 months after buying it, in 1971. Fifteen of these companies had unbelievable high early lapse rates ranging from 40 to 50 percent.

Dropping a policy in its infancy is expensive for consumers. Most straight life policies pay no cash values for the first year, and many participating policy dividend-payments are contingent on paying the second-year premium. The reason policies pay no early cash values is because of high selling expenses. One study showed that customers of 31 companies who bought cash value policies in 1971 but dropped them within 13 months sacrificed about $55 million in premiums -- after discounting what they would have paid for reasonable term insurance. And since it frequently costs companies more to "put a policy on the books" than is charged in premiums the first year, lapses also are expensive for the company and the remaining policyholders.

Why are there such high early lapse rates, and who and what are to blame?

According to constructive critics and students of this industry, inappropriate sales and even "deceptive sales practices which are a national disgrace" are the leading causes. Maybe this is too harsh a judgment. But when purchasers are misled by sales methods and presentations -- whether intentional, or because of tradition, the result is the same -- inefficiency and waste in the market. And this is so particularly in the market like life insurance where consumers are too many times overwhelmed with inaccurate and unreliable data, and wind up buying what they do not need or can not afford because they do not understand.

I am not alone in these observations. Responsible people in the industry and State insurance departments share my concern over high early lapse rates, and certain company marketing methods and high pressure sales practices.

Listen to what some of them said recently:

> *A lot of consumers think life insurance salespeople and the companies they represent are one step removed from the grifters romanticized in movies like the "Sting." In some cases, they are correct.*
>
> *Until now, the products and services delivered to the buyer have been dictated by the whims, ineptness, attitudes and avarice of the people doing the so-called selling, rather than by the desires and needs of the consumer. Some life insurance salespeople and companies have been prostituting the needs and desires of the consumer in their anxiety to get the commission dollars and the business on the books.*

These strong comments were made by Richard E. Sauder, the president of the Kemper Life Insurance Company early last month.

Donald S. MacNaughton, the chairman of the Prudential, told an audience that:

> *This [excessive early lapse rate] is a subject that appeals to consumerists, and where early lapse rates are high, much of their criticism is justifiable. I link this phenomenon -- where it exists -- with the most commonplace consumer complaint against the insurance industry: high-pressure selling tactics.*

And finally, William A. White, the chief actuary of the New Jersey Insurance Department, in his address at the recent regional meeting of the Society of Actuaries in New York City, said:

> *You're probably sick of hearing this, but the single most glaring embarrassment for the life insurance industry is its poor early duration persistency on permanent insurance. I have to place the bulk of the blame for this on company marketing methods -- and I do not mean by that individual agents. This problem is so acute that I could almost justify a requirement that each sale of permanent life insurance be preceded by a caution, in bold red letters, saying in effect: "The Insurer General Has Determined That This Policy Is Going to Cost You a Hell of a Lot of Money if You Don't Intend to Keep It in Force for More than a Year or Two."*

Mr. President, I ask unanimous consent that the articles containing the comments of these gentlemen be included in the Record at the conclusion of my remarks.

According to company data submitted to the subcommittee, lapse rates are particularly high among young adults, the poor- and middle-income people. The sorry impact of lapses and life insurance pricing practices on the poor was reported recently in a perceptive and well-written article in the Washington Post by Philip Stern.

Most of the new life policies are sold to these groups. In 1973, nearly three-fifths of new "ordinary" policies; namely, 11 million straight life and 1 million term -- were bought by people with less than $9,999 yearly income -- 38 percent were bought by those with incomes from $10,000 to $24,999. And three-fifths of the new policies that year were purchased by people between the ages of 15 and 34. As Mr. Stern pointed out, nearly all of the policies sold to low-income people are small face amount straight life plans. Very little term, with its relatively larger death benefits for the same premium, is sold.

But the real victims of lapse stemming from inappropriate sales are the ultimate consumers of life insurance -- widows and children. A few years ago this industry conducted a "Widow's Study." This landmark study shows that at the $7,000 to $10,000 family income level, nearly three-fourths received less than $10,000; at the $10,000 to $15,000 level, over one-half got less than $10,000.

It does not take much imagination to realize that these days "less than $10,000" will provide little support for a widow left with two small children. In fact, the chief executive officer of a prominent national life insurance company wrote in an insurance trade publication that if a man died leaving a widow with two small children ages 5 and 11, the youngsters alone would need to be furnished with 28,600 meals until they are grown and self-supporting. At $1.50 a meal, for example, this means $42,900. And this is in addition to their mother's grocery bill -- and the family's clothing, shelter, medical and dental care, and other living expenses.

Another finding of the "Widow's Study" was pointed out in a frank editorial comment in the National Underwriter -- a leading industry trade journal -- last February. Out of average per capita monthly survivor benefits of $155, widows received only $7.75, or 5 percent from life insurance. Two-thirds of the $155 came from social security, with the remainder coming from retirement plans, VA benefits, and miscellaneous sources.

Mr. President, I ask unanimous consent that the National Underwriter "Editorial Comment" and the Washington Post articles by Philip Stern, be included in the Record at the conclusion of my remarks.

What do consumers think about life insurance? For a number of years the industry's Institute of Life Insurance has sponsored a survey to learn what consumers think about their products. Some of the findings disclosed in the institute's 1973 and 1974 reports are pretty interesting. For example:

In 1973:
Only three out of 10 people who buy life insurance think they know what they are doing (four out of 10 feel uneasy because they are not sure they are getting the right kind of policy).

Only one out of four people think insurance agents present their products and services understandably, accurately and honestly.

Seven out of 10 people think that the life insurance agent is influenced by the size of his commission when making a recommendation.

Only one out of 10 people think that life insurance agents are responsive to individual buyer needs.

And in 1974:
Six out of 10 people agree that life insurance is as much a necessity as food, clothing and shelter.

Only four of 10 people think they know enough about life insurance to know whether a life insurance agent's recommendation is right for them.

Only three out of 10 people believe that life insurance companies give them their money's worth (two out of 10 think not, and five out of 10 have no strong opinion).

Only three out of 10 people think that the life insurance companies have been doing a good job of educating the public about life insurance (three out of 10 think not, and four out of 10 have no strong opinion).

Mr. President, the basic intent of the subcommittee study, hearings, and data analysis was to determine whether there was need for legislation to help consumers in the life insurance market. These consumer survey findings reported by the Institute of Life Insurance confirm my conclusion that there is, and today I introduce the Consumer Insurance Information and Fairness Act, and ask unanimous consent to have its text inserted in the Record at the conclusion of my remarks.

The bill is really very simple. It seeks to establish national standards as to the basic cost and benefit and other relevant information about a life insurance policy which shall be made available to consumers. The standards will be promulgated by the Federal Trade Commission, but enacted and administered by the States.

Basically, the bill provides that consumers, when they are considering buying a life insurance policy will be given information on: What premiums they will pay, how much death protection they get, what cash value there will be, what dividends they can expect -- if a participating policy -- how much the company will retain for overhead and profit, the charges for payment of the premium on less than yearly basis, and the policy loan fees. The figures will take account of interest and probabilities of lapse and death in evaluating what the policyholder pays in and what he gets back.

In addition, the consumer would get year by year information on premiums, face amount, cash value, dividends, terminal dividends, amount and cost of protection, and annual and cumulative rates of return. This year by year information for the life of the policy is needed to ferret out unusual or misleading dividend and cash value patterns or any other type of value manipulation. The annual data also will point up any abnormal front-end loading. Manipulation -- according to the subcommittee's actuarial consultant -- is said to exist when unreasonable advantage has been taken of the cost comparison system in general use to present a particular policy as more attractive than it genuinely is. The disclosure system in the bill -- so say the actuaries -- is the one least susceptible to actuarial manipulation.

As I mentioned, certain of the data contemplated by the bill will take account of interest, lapse, and death. In a long-term contract, such as life insurance, it is very important to recognize the timing of payments. We do this by using an interest rate. The result is fairer competition, and more accurate and reliable cost comparisons for the consumer. Similarly, if we omitted the probabilities of lapse and death, it would result in some companies enjoying an unfair competitive advantage by deferring payments of large dividends until relatively late in the usual 20-year period for cost analysis.

During the course of the subcommittee's pricing study its consultants came across many policies of complex design. Many of these straight life policies, and their variations, had face amounts -- death benefits -- that changed year to year throughout the life of the policy. These policies with death benefits that vary by duration frustrated comparison with other policies. It took quite a bit of actuarial unraveling to make these so-called "competition proof" policies comparable. Ironically, the NAIC model disclosure regulation exempts policies with death benefits that vary by duration. This means that all the complex and "gimmick" policies, including those designed to frustrate comparison shopping, are not covered by the NAIC regulation. Because I believe that this is an impossible situation for consumers, the cost disclosure system in the bill is such that comparison would be possible between policies with death benefits that vary by duration, and policies with death benefits that remain constant.

Mr. President, there is another problem area in this industry which I think has had a significant ill effect of competition -- to the detriment, as usual, of consumers. Because life insurance frequently has to be "sold," companies need agents, and the contractual relationships with agents tend to "lock in" an agent to one company. By this I refer to the general practice of requiring an agent to forfeit some of his commission if his contract terminates; most companies reserve the right to terminate an agent without cause. The irony is that the more business an agent produces for his company, the more he is "locked in" to that company.

Because of the nature of an agent's contractual relationship with his company, he may be unable to do a really professional job for his client. For example, if his company sells an inferior or high cost policy, the agent may be prevented from selling a competitor's superior or lower cost policy, because of the fear of being terminated and forfeiting some of his commissions.

In reality, the disclosure system in this bill will only reach its maximum effectiveness if agents are sufficiently independent so as to permit them to serve their clients in a truly professional manner. As one prominent casualty insurance company's advertisement in national magazine asks:

> *How Objective Can an Insurance Agent Be If He Only Works for One Company?*

This bill will allow agents to be sufficiently independent to do a truly professional job for the consumers.

Mr. President, the essential ingredient if we are to have the free enterprise system work is that consumers be able to make informed choices. In that way, they reward the efficient producers and force the others to upgrade or get out of the market.

One student of the data in our study developed tables of the 20 lowest cost life insurance companies selling participating policies, and the 20 lowest cost companies selling nonparticipating policies. These 40 companies accounted for 890,000 of the 5.1 million participating and non-participating policies sold as new business in 1972 by the entire industry -- some 1,800 companies according to the Institute of Life Insurance. In other words, not even one-fifth of the business was done by these top 40. Clearly, while I do not believe price is the only thing a consumer should think about in buying a life insurance policy, it should be an important consideration, as with any other service or product. To put it another way, four-fifths of individually sold life insurance is being done by 98 percent of relatively high cost companies. So, I am sure that consumers would consider price -- if they could. And, if they could, I think it is a very safe bet that those 98 percent would not have had so much of the business.

Then, why are so many consumers buying from relatively high cost life insurance companies? Because they have no accurate, reliable, and clear information about the costs and benefits of what they are buying.

Mr. President, this bill would make certain that consumers get such information.